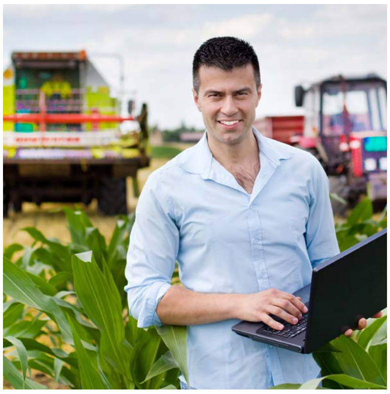
EUROPEAN
INVESTMENT
FUND

2016
ANNUAL REPORT

SUPPORTING SMART, SUSTAINABLE
AND INCLUSIVE GROWTH FOR SMEs



EIF ANNUAL REPORT 2016

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FOREWORD
CHAIRMAN OF THE BOARD OF DIRECTORS

EIF's strong performance in 2016 fully reflects the unwavering commitment and determination which fuel EIF's successful support to European small and medium-sized enterprises (SMEs), underpinned by the backing of shareholders and stakeholders.

In the context of a fragile economic recovery in Europe, coupled with the impact of political uncertainties coming from within and from outside the European Union, EIF achieved extremely good operational results across its activities, promoting access to finance for SMEs and microenterprises within its sectoral and geographic scope and as the EIB Group's specialist provider of risk finance.

EIF's implementation of the Investment Plan for Europe's EFSI SME Window – which is at the heart of EIF's co-operation with the European Commission (EC) across key mandates and financial instruments – reached a significant milestone in 2016, when coverage under the programme was completed in all 28 EU Member States. The implementation of EFSI remains one of EIF's primary objectives and next steps will entail a broadening of EFSI's impact through the funding of additional products.

Regulatory change and political and policy developments have always been key factors in EIF's operational environment, as illustrated by EIF's involvement in EU discussions on changes to the regulatory framework of the European SME securitisation market. In 2016, EIF persisted in its efforts to give a new impetus to this underdeveloped market, where regulatory change could allow EIF to further expand its important role.

The Board of Directors managed high volumes of operational, strategic and policy documents throughout 2016, benefitting, at the Annual General Meeting in April, from both the re-appointments of already experienced members, together with the appointment of new members designated by the EIB and the financial institution shareholders. Thanks and recognition are due with respect to the expertise and dedication of all those having served on the Board in 2016.

EIF was pleased to welcome two additional financial institutional shareholders, firstly in January, when the new French shareholder BPCE joined, followed in April by the Technology Development Foundation of Turkey (Türkiye Teknoloji Geliştirme Vakfı – TTGV). With a shareholder base including 30 financial institutions, alongside the EIB and the European Union represented by the European Commission, EIF enjoys – and presents its shareholders with – an extensive network of like-minded and valuable counterparts.

At the same time, this combination of public and private shareholding continued to give us a dual focus: to support EU policy objectives, while acting as a market-oriented institution that provides appropriate return on capital. We delivered strongly on both objectives in the past year.

As illustrated in this report, the solid and valued support of EIF's shareholders, mandators and other stakeholders allows EIF to intervene in ways which bring very tangible results and make a real difference to SMEs and micro-entrepreneurs in Europe. Thanks to EIF's management and staff having delivered outstanding results in 2016, EIF is well positioned to continue in its mission to develop a stronger, more competitive, entrepreneurial, innovative and inclusive Europe.

DARIO SCANNAPIECO

FOREWORD
CHIEF EXECUTIVE

EIF's work in 2016 remained anchored in our overarching goal of serving the European economy, through a commitment to fostering invigorated and inclusive economic development by breaking down investment barriers for SMEs and thus allowing them to innovate, grow and create jobs.

Whilst challenging at times, it was altogether a very successful year in terms of EIF's achievements. Our results show that we have been able to make a sizeable positive impact in facilitating access to affordable finance for European enterprises, not least in the context of the Investment Plan for Europe's EFSI SME Window.

Driven by the persistently strong market demand, a reallocation of resources allowed us to maintain the implementation pace of our core EFSI-backed guarantee instruments in favour of innovation and competitiveness, as well as the equity pillar of the EFSI SME Window. By the end of 2016, approved transactions under EFSI are expected to benefit some 385 000 micro-borrowers, SMEs and small mid-caps across all EU Member States.

In this context, EIF's co-operation with National Promotional Institutions (NPIs) reached a new level with the launch of the NPI Equity Platform. Strongly catalytic and novel initiatives – such as the first Thematic Investment Platform for SMEs in Italy – proved EIF's capacity to innovate and adapt and, together with our counterparts, to devise meaningful instruments that help the achievement of the Investment Plan for Europe's key policy objectives at national level. We look forward to capitalising on this experience to pioneer further instruments with NPIs.

EIF's delivery beyond its ambitious targets led to a significant increase of more than 35 percent in signatures compared to 2015. This translates into EUR 9.45bn of total commitments across a new record volume of 362 transactions. EIF also signed 22 new mandates, the majority of which were entrusted to us by national and regional counterparts.

Equity signatures in 2016 reached close to EUR 3.2bn across 117 transactions and demonstrated EIF's ability to capitalise on a range of investment resources and to forge a strong portfolio of catalytic funding instruments for growth and innovation in the European SMEs sector.

Guarantee and microfinance signatures exceeded EUR 6.2bn, through a record number of 245 transactions. Delivering beyond expectations under EFSI was the main driver of EIF's exceptional performance in this field. Moreover, our efforts in reviving the European securitisation market have started to produce tangible results.

The assessment of the impact of EIF's extensive operations is an area in which we continue to develop our analysis, in order to measure and demonstrate the added value of EIF's activity in the market and, in particular, at the level of final beneficiaries, the SMEs.

Alongside increased volumes, the Investment Plan for Europe has also enabled us to expand the reach of our financing toolbox to include equity and guarantee instruments dedicated to social enterprises and organisations with a clearly defined social mission. Empowering entrepreneurs from every walk of life to achieve financial inclusion, and making economic growth sustainable has been – and will remain – a key priority of our agenda.

The progress we made in 2016 would not have been possible without the expertise, dynamism and flexibility demonstrated by EIF staff. Following years of growth, including as an organisation, a period of consolidation will grant us stability to reflect on and further develop EIF's strategic choices for the years to come.

PIER LUIGI GILBERT

KEY FIGURES (AT 31.12.2016)

	2016	2015	2014	2013	2012
YEARLY SIGNATURES (IN EURm)					
Equity signatures	3 171	2 180	1 654	1 468	1 350
Equity leveraged amount	18 507	9 841	8 244	7 147	7 078
Guarantee signatures*	6 153	4 697	1 616	1 844	1 180
Guarantee leveraged amount	23 587	16 628	5 574	8 611	5 111
Microfinance signatures	121	86	51	54	40
Microfinance leveraged amount	580	421	135	201	139
TOTAL OUTSTANDINGS (IN EURm)					
Private equity assets under management	12 151	9 927	8 801	7 904	6 952
Guarantee exposure*	13 734	9 293	5 576	5 574	4 696
Microfinance	297	218	170	146	117
KEY FINANCIALS (IN EURm)					
Total assets	2 301	2 183	2 045	1 473	1 393
Subscribed capital	4 382	4 286	4 161	3 000	3 000
Operating profit	108	79	66	59	56
Net profit	122	97	84	47	31
AAA / AA callable capital (in %)**	94	94	94	97	97
KEY RATIOS (IN %)					
Return on average equity	6.5	5.5	5.9	4.2	3.1
Liquid assets / total assets	65.4	74.4	79.2	75.4	77.0
Shareholders' total equity / total assets	81.6	85.0	82.4	79.1	78.2

* Maximum liability

** As at 31.12.2016, 118 shares from the capital increase are still unallocated and are excluded from the calculation.

CHAPTER 1
THE EUROPEAN MARKET ENVIRONMENT IN 2016

2016 was the first year when tangible signs of a somewhat improved financial environment for SMEs started to show. This, in conjunction with a moderate recovery of the European economy, led to an overall positive development of the SME business climate. However, investment growth expectations in this sector remained subdued and the recovery is still fragile.

MACROECONOMIC AND STRUCTURAL SETTING

Small and medium-sized enterprises (SMEs) underpin the EU economy and contribute to job creation and economic growth. According to the latest European Commission (EC) Annual Report on SMEs[1], 23m SMEs in the EU accounted for 99.8 percent of all non-financial enterprises and employed 91m people, accounting for two thirds of total employment.

Access to finance and the cost of finance are key concerns for SMEs, reflecting general market failures that have been amplified by the economic crisis. Moreover, SMEs are confronted with a deteriorated lending and risk-taking capacity of banks, their main source of external finance, notably due to tighter regulatory requirements and the banks' accumulation of non-performing loans.

However, according to the latest EC/European Central Bank (ECB) Survey on the Access to Finance of Enterprises (published in November 2016[2]), access to finance as an impediment to the business activity of SMEs has become less important than other factors (such as finding customers and the availability of skilled staff), potentially facilitated by successful public support. Nevertheless, considerable national disparities persist among EU Member States. Moreover, the analysis found that from the perspective of SMEs, a lack of access to publicly-supported financing instruments and the generally difficult economic outlook have negatively impacted the availability of external financing for SMEs.

Borrowing costs have remained low in Europe, mainly due to the expansionary monetary policy stance. However, the difference between interest rates of small loans (typically demanded by SMEs) and large loans remained significant and even increased in some countries. This can be explained by the same market imperfections in the financing of smaller companies as mentioned above.

Access to finance for SMEs can be improved through instruments that either enhance the lending capacity of banks or provide complementary sources of financing, such as credit guarantees, securitisation, microfinance and private equity /venture capital and other non-bank intermediated finance. A brief overview of the relevant market segments is given below. Further details on EIF's activities, aiming to improve access to finance in these areas, are provided in the following sections of this report.

PRIVATE EQUITY

Following the severe downturn of the European private equity market in 2008/2009, the activity has continued along its recovery path and total private equity fundraising further increased in 2016. However, the venture capital segment, which is of particular importance for the financing of young innovative companies, has lagged behind, and activity levels were still far below their pre-crisis highs.

[1] Annual Report on European SMEs 2015/2016 - http://ec.europa.eu/DocsRoom/documents/21251/attachments/1/translations/en/renditions/native
[2] EC DG Growth – http://ec.europa.eu/growth/access-to-finance/data-surveys_en

Some of the remaining gaps were filled by business angels, not least due to their proximity to the market. Government agencies have also continued to support the markets in order to incentivise additional deal flow and attract further private investment.

SME GUARANTEES/SECURITISATION

Credit guarantees have been widely used to alleviate market failures in the area of SME financing. Despite improvements in the economic environment and an increase in new guarantee issuance, fiscal constraints were still limiting the ability of governments to provide public support for credit guarantees in several EU Member States. Therefore, financial and regulatory support at the European level can help improve the availability of guarantees even further.

SME securitisation has also been identified as an important source of funding or regulatory capital relief, thus enhancing the ability of banks to lend to SMEs. The importance of securitisation, as a tool to enhance access to finance for SMEs, has been confirmed in the context of the EU's plan to create a fully functioning Capital Markets Union (CMU). Although the European securitisation market is still well below its pre-crisis levels with the total volume of new issuances remaining weak in 2016, the market performed relatively well and the SME segment exhibited low default rates.

Various initiatives aim to remove current hurdles and to help the revival of high-quality SME securitisation. These include regulatory proposals to introduce simple, transparent and standardised (STS) securitisation which should receive preferential regulatory treatment.

MICROFINANCE

Microfinance continued to be generally associated with social and economic objectives and has remained an important financing source for job creation. The majority of European microfinance institutions (MFIs) targeted the achievement of social impact, sustainable employment, as well as social and financial inclusion. However, the European microfinance market is still young and heterogeneous, especially with regard to the diversity of lending approaches.

Difficulties in access to finance have been particularly acute for micro-enterprises and other microfinance target groups. According to the above-mentioned EC/ECB Survey, micro-enterprises cited access to finance as their most pressing concern more frequently than their larger peers.

Microfinance can fill this financing gap, thereby serving both economic and social objectives and benefiting a wide range of target groups. European microfinance has shown remarkable growth over the past years, which could, however, be undermined by reduced public support due to budget restrictions. This underlines the need for further support in the field of microfinance and social finance at European level.

EIF'S IMPACT ASSESSMENT STUDIES

In 2016, EIF boosted its research and analysis activity focusing on the economic impact of its main financial instruments. For more details see Chapter 7. – EIF's ex-post impact assessment research studies.

EIF WORKING PAPER SERIES

An in-depth analysis of European SME finance and its market segments is provided by EIF semi-annually in its Working Paper series "European Small Business Finance Outlook". EIF Working Papers are designed to make selected topics and research studies relating to EIF's activity available to a wider audience at: www.eif.org/news_centre/research/index.htm

CHAPTER 2
INVESTMENT PLAN FOR EUROPE

The first full year of implementing the Investment Plan for Europe's ambitious agenda required EIF to stay dynamic and fully engaged. Under the EFSI SME Window, EIF contributed to fighting suboptimal investment situations in key areas, aiming to relaunch investments in innovation, restore competitiveness, boost economic growth and sustain jobs in Europe in line with the EU's policy objectives. EIF helped fill persistent market gaps so that affordable financing reaches SMEs at a faster rate.

EFSI was launched in July 2015 and is a joint initiative of the European Commission (EC) and the European Investment Bank (EIB) Group – of which EIF is part – to overcome investment barriers across the EU Member States by mobilising financing in strategically important economic areas and sectors. EFSI is the financial pillar of the Investment Plan for Europe. Alongside fostering regulatory and structural reforms, it seeks to achieve an investment-friendly environment in Europe.

EFSI takes the form of a contractual arrangement between the EC and the EIB Group, translating into an EU guarantee to the EIB (initially EUR 16bn) and an EIB capital contribution (initially EUR 5bn). The deployment of the initial EUR 21bn of EFSI funds aims to generate a total of EUR 315bn of investments, as a result of the EIB Group's efforts to crowd-in additional public and private resources.

EFSI has two components to support projects with wide sector eligibility: the Infrastructure and Innovation Window managed by the EIB and the SME Window implemented by EIF. The financial instruments used for the purposes of the EFSI SME Window are mainly guarantees and equity investments.

The initial investment volume expected to be triggered under the EFSI SME Window by mid-2018 was EUR 75bn. However, EIF has effectively responded to the acute market demand for EFSI-backed financial instruments that support innovation and competitiveness, and already within the first year of EFSI's deployment, the agreements signed are expected to mobilise more than two-thirds of the initially foreseen EUR 75bn target.

This entails an estimated fifteen-fold leverage, meaning that every EUR 1 guaranteed by EIF generates EUR 15 of investment for the benefit of SMEs and mid-caps. Year-end 2016 results confirmed that EIF had not only achieved, but exceeded this initial estimate.

IMPACT AND ACHIEVEMENTS*
INVESTMENT PLAN FOR EUROPE

Delivering beyond expectations to foster an innovative, competitive and inclusive economic growth for SMEs

Full geographic coverage of
ALL EU-28 MEMBER STATES
ACHIEVED

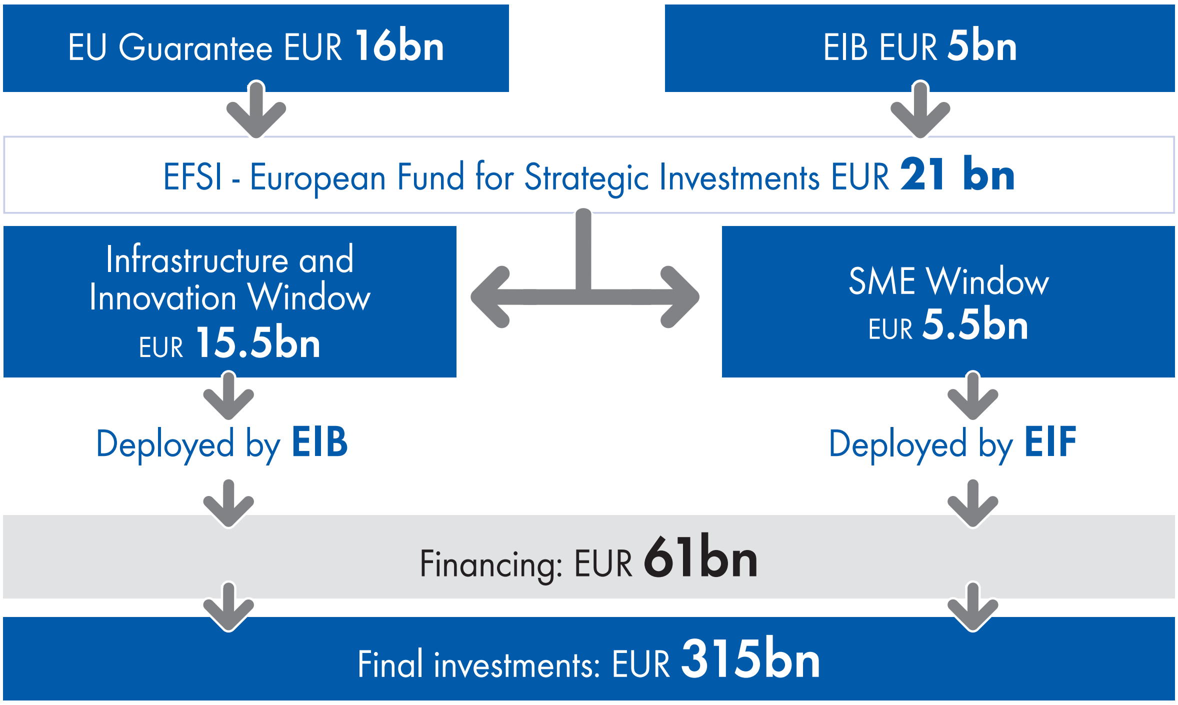
Leveraging on EFSI
8.2 BILLION
EIF FINANCING

Expected to mobilise
69.5 BILLION
INVESTMENTS

Estimated to benefit
385 000 ENTERPRISES
IN THE SME SECTOR

* Based on results in 2016

EFSI'S STRUCTURE AND COMPONENTS: INCREASED RESOURCES UNDER THE SME WINDOW



EIF's outstanding performance in the context of the Investment Plan for Europe was acknowledged by the EC. The EFSI evaluation report from September 2016 highlighted in particular the very fast implementation of the SME Window, due to the reliance on EIF's delivering capacity under existing flagship products and mandates developed and supported by the EC and the EIB Group, notably the InnovFin SME Guarantee Facility (InnovFin SMEG) and the COSME Loan Guarantee Facility (COSME LGF), and on EIF's well-functioning internal processes.

EFSI SME Window

€ 3072

expected mobilised investment per European SME

In the light of this success, the EC decided on a EUR 500m increase of the EFSI SME Window resources in July 2016, leading to a new investment objective of EUR 82.5bn. The increase was possible thanks to a reallocation from the Investment and Infrastructure Window and EIF is on track to reaching the new investment objective well before the target date in July 2018.

In the first phase of implementation of the SME Window, the following steps were taken:

- EUR 1.25bn was made available to EIF through a guarantee from the EIB (itself backed by the EU guarantee under EFSI) for the frontloading of the InnovFin SMEG and the COSME LGF. Frontloading means that both of these mandates were initially intended for gradual deployment over the period 2016-2020, whilst the EU guarantee under EFSI allowed EIF to deploy the whole investment capacity already as of 2015, hence providing both a quicker access to finance for SMEs and a broader outreach to final beneficiaries.

- EUR 2.5bn was provided to EIF by the EIB, from its own contribution to EFSI, to increase the capacity of the Risk Capital Resources (RCR) mandate managed by EIF on behalf of the EIB. This equity mandate supports investments mainly into innovative SMEs and mid-caps.

Hence, EIF has been able to deploy its support at a faster rate than initially anticipated. EIF adapted its response to a strong market demand that kept on increasing throughout the year. By the end of 2016, EIF approved close to EUR 8.2bn of financing in 247 transactions across all instruments. These agreements leveraged on close to EUR 3.9bn of EFSI support, which corresponds to around 70 percent of the total EFSI contribution under the SME Window resources (EUR 5.5bn).

Approvals by year-end 2016 are expected to mobilise investments of up to EUR 69.5bn, corresponding to about 84 percent of the overall target of EUR 82.5bn.

The number of signed transactions reached 225, totalling close to EUR 7.3bn of leveraged EIF financing underpinned by more than EUR 3.7bn of EFSI support. Furthermore, EIF achieved a full geographical coverage of all EU-28 Member States under EFSI in December 2016.

Under InnovFin SMEG and COSME LGF, 100 new guarantee and counter-guarantee transactions were signed in 2016 with the support of EFSI, expected to mobilise EUR 22.2bn of investments at the level of SMEs.

Under the RCR mandate, EIF increased commitments in investment funds that target early to lower mid-market segments, including the provision of equity as well as hybrid debt/equity financing. 30 new EFSI-backed RCR transactions were signed by the end of 2016, leading to an expected EUR 10.9bn of mobilised investments.

Further to the EUR 500m increase in July 2016, the second phase of the EFSI SME Window was launched, encompassing the new EFSI SME Window Equity instrument and a frontloading of the EaSI Guarantee Financial Instrument (EaSI GFI) under the EU Programme for Employment and Social Innovation.

The EFSI SME Window Equity instrument (EFSI Equity) has a total investment capacity of EUR 2.068bn. It is an umbrella structure covering:

- early stage investments under the newly launched InnovFin Equity facility including a focus on technology transfer, business angels and venture capital; and

- growth stage investments and fund-of-funds, including a focus on social impact investments.

In addition, this instrument opens up the possibility for other investors to co-invest alongside EIF in both the early and the growth stage windows.

EIF also rolled out a collaborative platform for national promotional banks and institutions (NPIs) in September 2016 (see Chapter 4.1. – Equity activity). The NPI-Equity Platform provides a flexible, non-binding governance framework enabling EIF and NPIs to establish a closer, more coordinated operational interaction.

To address the high market demand for EaSI guarantees, EIF and the EC signed the frontloading of EFSI budgetary allocations for this initiative in December 2016. Thanks to EFSI, the upfront availability of the EU's budgetary appropriations for the 2017-2020 period accelerates the deployment of resources that can be allocated immediately to final beneficiaries to enhance access to finance in the areas of microfinance and social entrepreneurship.

Following the signature of the EaSI frontloading agreement in December 2016, EIF signed two new transactions under EFSI before year-end, generating a total loan volume of EUR 19m for micro-borrowers. This is expected to mobilise investments of up to EUR 27m at the level of final beneficiaries, empowering small entrepreneurs and contributing to social inclusion. To this end, additional products will be launched in 2017, aiming to further increase the impact capacity of the EFSI SME Window. Looking ahead, EIF very much welcomes the proposal on the possible extension of the Investment Plan for Europe beyond 2018.

Calculating the EFSI leverage: How does the EU budget guarantee help EIF financing?

The concept of leverage at EIF is defined through the ratio between the invested amount and the total volume of financing that becomes available in the real economy as a result of EIF's engagement in guarantee activities or equity investments.

By crowding in other public and private sources of finance, EIF strives to achieve a substantially higher amount of financing made available to SMEs. The degree of its success is measured by the multiplier effect.

EIF's multiplier calculation methodology is composed of the internal multiplier (IM) and the external multiplier (EM).

The currently estimated multiplier is above 1:15 and reflects EIF's catalytic role in creating added value and mobilising additional resources from the public and private sectors to the benefit of SMEs and mid-caps.

Hence, the EFSI multiplier explains the relationship between the initial EFSI contribution and the expected volume of mobilised investments. Given the diversity of EIF's mandates and products under EFSI, the multiplier should be seen as an average rather than an absolute figure.

Internal Multiplier x External Multiplier = EFSI Multiplier

Internal Multiplier	External Multiplier	EFSI Multiplier
Ratio between EIF financing and EFSI contribution	Ratio between (expected) mobilised investments and EIF financing	Ratio between (expected) mobilised investments and EFSI contribution

CASE STUDY

Company
Exovite (Spain)

Type of business
Medical technology, rehabilitation

EU-supported guarantee
InnovFin SMEG, EFSI

Exovite

Bringing technological innovation to medical treatment

Traditional splints were mostly inflexible and rather uncomfortable to wear. Rehabilitation was lengthy until the muscle mass beneath could fully recover. Exovite's state of the art medical technology represents a welcome change in this regard.

From its headquarters in Zaragoza, Exovite has developed a comprehensive system using 3D-scanners and 3D-printers to produce light, durable, ergonomic splints for the affected limb.

Through an electro-stimulator attached to the splint and dedicated software installed on the patient's smartphone, doctors are able to initiate rehabilitation exercises and monitor progress remotely, without the need for frequent visits to the clinic. In this way, treatments can start earlier, with the limb still immobilised, thus preventing loss of muscle-mass. The average recovery time for broken bones is generally reduced from ten to seven weeks.

Exovite's success is largely due to considerable initial investments in research and development. A recipient of no fewer than 12 international awards, the company has expanded rapidly over the past year, almost tripling its staff base. Growth prospects remain strong also for the upcoming period.

The Exovite system is already in use in seven hospitals across Spain and the company is looking to expand to other European countries and beyond, for example Israel and the United States.

"We plan to install new technology 3D printers in clinics that will produce the splints in five minutes instead of the current seven hours", explains Luis Monzon, Chief Operating Officer.

To support this growth, Exovite received an EU-guaranteed loan under InnovFin SMEG and supported by the Investment Plan for Europe's EFSI SME Window. In this framework, EIF provided a counter-guarantee to CERSA that in turn, was able to support the creation of loan portfolios benefitting Spanish SMEs.

www.exovite.com


CASE STUDY

Company
Markus Büchin (Germany)

Type of business
Agriculture, viticulture

EU-supported guarantee
COSME LGF, EFSI

Markus Büchin

Realising his long-term dream as a young vintner

Some say that wine-making is an art. Others believe it is a science. Either way, it requires the winemaker's dedication and an almost fanatic attention to details for the result to be consistently great year after year. This is why Markus Büchin, a young vintner from the Baden-Württemberg state in Germany, decided to start his own winery.

Markus is a viticulture technician by training. He started growing grapes as a part-time activity on a small plot of land measuring only 1.5 hectares in 2007. Over time, Markus understood what he truly wanted: to use traditional sorts of grapes typical from his region, but make modern wines that appealed to a wide range of customers.

Today Marcus' farm extends to over 18 hectares, producing around 150 000 bottles of wine per year. While his vineyard's capacity has gradually increased, the prevailing principles remain: Marcus values natural cultivation and production methods, for example preserving the grapes' own sweetness rather than adding artificial sugars. His wines are distributed by over 40 retailers in Germany.

The portfolio guarantee under the COSME facility enabled the Bürgschaftsbank Baden-Württemberg, an EIF financial intermediary, to provide Markus with an EU-supported loan at more favourable conditions. In addition, the loan benefited from the support of the Investment Plan for Europe's EFSI SME Window managed by EIF.

When the new Büchin winery building is completed it will offer sufficient production and storage capacity to meet the growing market demand. Alongside the on-site shop with a spacious wine-tasting area, this will allow Marcus to realise his long-term dream.

www.buechin-weine.de

CHAPTER 3
INSTITUTIONAL MANDATES

Institutional mandates are resources managed by EIF on behalf of its larger shareholders, the European Investment Bank (EIB) and the European Commission (EC). Thanks to these mandates, EIF fostered invigorated and inclusive economic development by breaking down investment barriers for European enterprises. At the end of 2016, EIF managed 40 institutional mandates, including five new guarantee and equity initiatives launched during the year.

EIB MANDATES

EIF invests EIB resources under two major mandates: the Risk Capital Resources (RCR) instrument for equity investments and the EIB Group Risk Enhancement Mandate (EREM) for debt and hybrid financing. These mandates reinforce the cooperation between EIF and the EIB, and their combined resources serve to maximise the funding impact for the benefit of SMEs and mid-caps.

RCR – ADDRESSING FUNDRAISING SHORTFALLS

The EIB Risk Capital Resources (RCR) mandate is the core pillar of EIF's equity activity and a critical resource that has enabled EIF to pursue its equity strategy under the Investment Plan for Europe's EFSI SME Window. The RCR mandate relies on a general requirement for EIF to co-invest its own resources alongside mandate resources.

Early stage (venture capital and technology transfer) investments under the RCR mandate support innovation in sectors that are prompting the emergence of start-ups, with a view to contributing to Europe's rapid economic recovery. Such sectors include for example information and communications technologies and life sciences. Growth and lower-mid-market activities have a more general focus and traditionally cover a wide range of economic activities.

As at September 2016, using RCR resources, funds in EIF's portfolio have invested in total EUR 43.7bn in more than 7 000 investee companies since inception. The amount of mobilised investments supported by these portfolio funds has been estimated at EUR 108bn.

Against this background of strong market demand, EIF has played an instrumental role in attracting participation from private sector players and institutional investors in particular for first time fund managers. Capitalising on its catalytic role and best practices, EIF aims to direct funding to enterprises which can generate significant added value in the European economy, but which would otherwise remain insufficiently financed by commercial banks alone.

Within the RCR mandate, the EUR 100m hybrid debt/equity Mezzanine Co-Investment Facility (MCIF) has contributed to addressing fundraising shortfalls in the SME sector through co-investments alongside mezzanine funds. In 2016, commitments under MCIF reached EUR 24.7m.

EREM – ADDRESSING DIVERSE MARKET NEEDS

The EIB Group Risk Enhancement Mandate (EREM) underpins a substantial array of the financial instruments deployed by EIF. The different windows of EREM comprise the ABS Credit Enhancement initiative, with a primary focus on providing increased cover for mezzanine tranches of SME securitisation transactions, the Social Impact Finance programme, including the Social Impact Accelerator initiative, the Loan Funds instrument launched in 2015 and the Cooperative Banks and Smaller Institutions (CBSI) window that was rolled out in late 2016.

The EREM mandate also contributes to the financing of the SME Initiative that is currently deployed in six EU Member States including Bulgaria, Finland, Italy, Malta, Romania and Spain (see Chapter 4.2. – Guarantees and securitisation activity and Chapter 5 - National and regional mandates).

While the individual focus of the different EREM products varies, they all seek to respond to emerging market needs by offering alternative sources of financing and effectively broadening the long-term financing spectrum available to SMEs.

The EREM product windows are to be deployed over a seven-year timeframe in the 2014-2020 period. The results of EREM's first implementation phase that ended in 2016 are detailed below.

The EUR 1.015bn EREM ABS Credit Enhancement instrument equipped EIF with additional capacity to support mezzanine tranches of SME/small mid-caps-based securitisation transactions, including both synthetic and true sale transactions. This supported EIF in its efforts to stimulate the development of the SME securitisation market in Europe. By year-end 2016, commitments under the ABS Credit Enhancement window amounted to EUR 916m.

The initial tranche of EUR 189m under the Social Impact Finance window increased the investment capacity of EIF's Social Impact Accelerator (SIA) instrument, hence consolidating a viable funding infrastructure for social enterprises through established social venture funds. During EREM's first period, EIF concluded SIA transactions with an aggregate commitment of EUR 105m.

The EREM Loan Funds instrument earmarked an initial EUR 175m in April 2015, which was increased to EUR 725m as of January 2016 due to the strong pipeline built up in the rollout phase. Its objective is to widen the availability of loan financing for SMEs and small mid-caps beyond traditional bank channels.

EIF's commitments concerned both diversified loan funds, applying an investment approach close to bank lending, and selective loan funds managed like private equity. EIF committed a total of EUR 630m in the 2014-2016 period with additional EUR 80m already approved and to be committed in the first few months of 2017.

The Cooperative Banks and Smaller Institutions (CBSI) initiative was signed between the EIB and EIF in October 2016 with a view to widening the availability of small bank and non-bank financing for SMEs and small mid-caps by EIF granting senior loans to eligible cooperative banks and financial institutions. CBSI's initial size was agreed at EUR 125m, of which EUR 76.5m was committed by the end of the year. The remaining budget is expected to be fully committed in early 2017.

EC MANDATES

EIF's cooperation with the European Commission (EC) has been continuously ensuring that the EC's financial instruments and mandates contribute to a rapid achievement of strategic EU policy objectives. In addition to developing or extending existing programmes, the EC entrusted EIF in 2016 with an additional EUR 1.27bn of equity mandate capacity to be deployed under the EFSI Equity instrument forming part of the Investment Plan for Europe's EFSI SME Window.

The EFSI SME Window enabled EIF to become more efficient in tackling investment shortcomings and in fostering innovation, jobs and growth. Furthermore, it has widened the opportunities for finance in priority sectors across all EU-28 Member States.

Following the launch of the new EFSI Equity instrument, the Single EU Equity Financial Instrument – a parallel equity initiative mandated by the EC in 2015 – has remained available for financial intermediaries that do not meet the EFSI eligibility requirements, for example when an intermediary is located outside the EU-28 Member States but otherwise is eligible for support under the COSME or Horizon 2020 frameworks.

COSME – INVESTING IN COMPETITIVENESS AND GROWTH

The Competitiveness of Enterprises and SMEs (COSME) programme was set up in 2014 by the EC (Directorate-General for Enterprise and Industry, now Internal Market, Industry, Entrepreneurship and SMEs, or DG GROW) to promote competitiveness and entrepreneurship in Europe, improve access to finance for European businesses and provide higher-risk SME loans and finance leases.

The COSME programme is deployed through two financial instruments managed by EIF: the Loan

Guarantee Facility (LGF) and the Equity Facility for Growth (EFG). These financial instruments are foreseen to run in the 2014-2020 period with an indicative aggregate budget of EUR 1.4bn.

COSME LGF allows EIF to provide guarantees and counter-guarantees to selected financial intermediaries, supporting them in their endeavours to grant loans and leases or issue guarantees to SMEs which they could not otherwise provide due to the high risks involved. Under the COSME programme, EIF provides free-of-charge capped guarantees to allow financial institutions to increase the range and volume of SME financing, especially in riskier segments. COSME also supports the provision of guarantees underpinning the securitisation of SME debt finance portfolios, which enables financial intermediaries to generate new SME debt finance portfolios.

In addition to the EU-28, the EU enlargement candidate countries Albania, FYROM, Montenegro, Serbia and Turkey, as well as Iceland are eligible for COSME. Additional countries may join at a later stage.

By the end of 2016, 41 LGF agreements were signed – of these, 39 EFSI-backed signatures, one transaction in Serbia and another in Turkey – representing a guarantee commitment of EUR 337m, which is expected to leverage EUR 7.5bn of financing.

COSME EFG forms part of the Single EU Equity Instrument, alongside InnovFin Equity, supporting investments in funds that provide equity and mezzanine finance to expansion and growth stage SMEs.Since inception, EIF has invested through COSME EFG in 9 funds, including multi-stage investments together with InnovFin Equity, committing EUR 101.4m of COSME resources.

Investments in portfolio companies cover a wide range of sectors. In line with EFG's policy objectives, investee funds are pursuing a multi-country investment strategy or strongly support the internationalisation of their investees. To date, six countries have benefitted from COSME EFG investments.

INNOVFIN – DRIVING INNOVATION AND JOB CREATION

InnovFin – EU Finance for Innovators (InnovFin) is a joint EIB Group and EC (Directorate-General for Research and Innovation) initiative under Horizon 2020, the EU research programme for 2014-2020. InnovFin consists of a range of tailored products – from guarantees to financial intermediaries and direct loans to enterprises, to equity and advisory services – to support research and development projects in the EU-28 Member States and beyond.

The range of Horizon 2020 associated countries eligible to benefit from the InnovFin programme currently includes Albania, Armenia, Bosnia and Herzegovina, Faroe Islands, FYROM, Georgia, Iceland, Israel, Moldova, Montenegro, Norway, Serbia, Switzerland, Tunisia, Turkey and Ukraine.

Within the EU, InnovFin Equity is deployed as part of the EFSI Equity instrument. Beyond the EU borders, InnovFin Equity can be deployed also in countries covered by the Horizon 2020 programme through the Single EU Equity Instrument.

InnovFin Equity comprises four different products, ranging from technology transfer to investments in fund-of-funds as further elaborated below.

InnovFin Technology Transfer (InnovFin TT) targets investments in technology transfer funds focusing on the areas of key enabling technologies and other Horizon 2020 objectives. InnovFin TT mainly supports investments in funds operating in the pre-seed (including proof of concept) and seed stages.

InnovFin Business Angels (InnovFin BA) supports investments in funds managed by business angels or co-investment funds, which invest in early-stage enterprises at regional, national or cross-border level.

InnovFin Venture Capital (InnovFin VC) promotes investments into venture capital funds that provide funding to enterprises in their early stage operating in innovative sectors, especially information and communications technologies (ICT), medical technologies, biotechnologies, green technologies and nanotechnologies.

InnovFin Fund-of-Funds (InnovFin FoF) enables investments in fund-of-funds structures that hold or intend to build a portfolio of underlying investee funds with significant early stage focus.

By the end of 2016, EIF invested in 10 funds, committing EUR 164.5m of InnovFin Equity financing blended with EFSI and EIF resources. The majority of these investee funds pursue multi-country strategies focusing primarily on early stage companies active in life sciences and ICT sectors.

In addition, EIF has been implementing the InnovFin SME Guarantee (SMEG) financial product since the programme's launch in June 2014. The InnovFin SMEG is a 50 percent uncapped guarantee or counter-guarantee that EIF provides to financial intermediaries (and for which a standard guarantee fee is charged), allowing them to provide debt financing on favourable terms to innovative SMEs and small mid-caps in EU Member States and associated countries.

With the support of the EUR 1bn EC budget, EIF is expected to enter into guarantee agreements with financial intermediaries for a total amount of around EUR 5bn, which should result in approximately EUR 10bn of debt finance for innovative companies. This is expected to catalyse around EUR 14bn in investments.

EIF concluded a record amount of 78 new signatures under InnovFin SMEG in 2016 – of which 62 transactions leveraging on the EFSI guarantee – reaching an aggregate signature amount of more than EUR 2.3bn, which is expected to leverage EUR 5bn of financing.

EaSI – ENHANCING EMPLOYMENT AND SOCIAL INNOVATION

The financial instruments under the European Union Programme for Employment and Social Innovation (EaSI) are being set up by the European Commission Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) in co-operation with EIF with the aim of achieving sustainable employment, guaranteeing adequate social protection and promoting the achievement of social goals in line with the Europe 2020 strategy.

The EU has indicatively allocated EUR 193m to the EaSI financial instrument for the 2014-2020 programming period. EIF has been entrusted so far with the implementation of two financial instruments: the EaSI Guarantee and the EaSI Capacity Building Investments Window, launched respectively in June 2015 and December 2016, for a total indicative amount of EUR 112m.

The deployment of these financial instruments aims to increase the availability of financial resources for disadvantaged groups of entrepreneurs as well as social enterprises, and especially for the benefit of those who are typically excluded from the commercial credit markets. In addition to the EU-28 Member States, the EaSI instruments are also available in Albania, FYROM, Iceland, Montenegro, Serbia and Turkey. Other countries may join the programme at a later stage.

The EaSI Guarantee provides capped guarantees or counter-guarantees to portfolios of loans not exceeding EUR 25 000 in the field of microfinance, and up to EUR 500 000 for social enterprises, the latter being enterprises whose primary objective is the achievement of measurable, positive social impact rather than having a pure profit-making purpose.

Beneficiaries may include underprivileged groups such as the young, the unemployed or migrants who wish to set up their own businesses. A very high market uptake of the EaSI financial instrument led to a frontloading under EFSI in July 2016 (see Chapter 4.3 – Inclusive finance activity).

In 2016, EIF signed 29 EaSI guarantee transactions – of which 23 microfinance and six social entrepreneurship agreements – totalling EUR 32.2m, leveraging close to EUR 409m of financing in co-operation with financial intermediaries in Albania, Austria, Belgium, the Czech Republic, Greece, Estonia, Montenegro, Poland, Portugal, Romania, Serbia, Slovakia and Spain.

For the new EaSI Capacity Building Investments Window, DG EMPL and EIF signed the relevant agreements and launched the calls for expression of interest in December 2016. This new facility aims to build up the institutional capacity of microcredit and social finance providers primarily through equity investments in selected intermediaries. Portfolios of loans or investments into micro-enterprises and social enterprises are not financed under this window.

ERASMUS+ – ENSURING INTERNATIONAL MOBILITY FOR STUDENTS

The Erasmus+ Master Student Loan Guarantee Facility was launched in spring 2015 and offers credit risk protection in the form of capped guarantees or counter-guarantees to financial intermediaries that grant new loans to internationally mobile masters students.

The instrument represents a major step towards the achievement of the 20 percent target for higher education student mobility in Europe in accordance with the Bologna Process agreement[3].

This loan guarantee scheme consists of a free-of-charge capped portfolio guarantee, covering student loans of up to EUR 12 000 (for a 1-year degree) and EUR 18 000 (for master's studies of more than one year).

Four new ERASMUS+ guarantee agreements for EUR 16.2m were concluded in 2016 with counterparts in France, Ireland, Luxembourg and Turkey, supporting the disbursement of a total of EUR 100m in student loans.

CCS – SUPPORTING THE CULTURAL AND CREATIVE SECTORS

The Cultural and Creative Sectors (CCS) Guarantee Facility was launched in June 2016 in the context of the EU's Creative Europe programme for the budgetary period 2014-2020. The objective of Creative Europe is to promote cultural diversity and Europe's cultural heritage, and to strengthen the competitiveness of the cultural and creative sectors.

This new mandate aims to support SMEs and organisations in the cultural and creative sectors such as audio-visual, music, fashion, architecture, libraries, theatres and museums. These sectors often face difficulties in accessing loans due to the intangible nature of their assets and a general lack of financial intermediary expertise in addressing the specificities of this sector.

At the same time, the European cultural and creative sector accounts for more than 7 million jobs in the EU and 4.2% of the EU's GDP, hence this new financial instrument is expected to help bridge a substantial market gap. The CCS mandate has an overall envelope of EUR 121m and is expected to support more than EUR 600m in loans and other financial products.

The CCS mandate is made up of two pillars. On the one hand, it offers free-of-charge, capped first-loss portfolio guarantees and counter-guarantees to enable selected financial intermediaries to provide loans and leases to relevant entrepreneurs. On the other hand, it offers an optional capacity-building programme, also free of charge, to help financial intermediaries improve their understanding of the specificities of the cultural and creative sectors.

The new programme has been very well received by the market and EIF already signed three CCS transactions, committing EUR 12.7m in France, Romania and Spain. These agreements are expected to generate EUR 86.6m of leveraged financing.

DCFTA – IMPROVING BUSINESS CONDITIONS IN THE EASTERN NEIGHBOURHOOD

The Deep and Comprehensive Free Trade Area Initiative East, including its Guarantee Facility pillar (DCFTA GF), was signed in December 2016 between EC and the EIB Group.

The DCFTA mandate aims to strengthen the economic development in EU associated countries (Georgia, Moldova and Ukraine) by providing targeted financial and technical support to SMEs so that they can align to EU standards.

[3] EC Education and Training - http://ec.europa.eu/education/policy/higher-education/bologna-process_en

DCFTA GF will support economic growth and employment-generating activities and enhance access to finance for SMEs by allowing first loss portfolio guarantees to be provided to financial intermediaries, enabling local intermediary banks to take on more risk and reach out to underserved segments of the economy. A total loan volume of more than EUR 300m is expected to be generated for the benefit of SMEs in these countries. The EU funding for this guarantee facility has been provided by the Neighbouring Investment Facility (NIF) and the programme of EU Support to Ukraine to Re-launch the Economy (EU SURE).

INSTITUTIONAL MANDATES

	Amounts in EURm	PRODUCT	YEAR SIGNED	END OF COMMITMENT PERIOD	TOTAL NOMINAL RESOURCE	TOTAL COMMITTED
EIB	RCR	Equity	2000	/	9 500	11 039
EIB	EREM	Multi	2014	2016*	2 093	1 584
EUROPEAN COMMISSION	EPMF	Equity	2010	2016	180	176
		Guarantees			24	21
EUROPEAN COMMISSION	InnovFin - EU Finance for Innovators	Guarantees	2014	2020	1 060	833
		Equity	2015	2020	495	74
EUROPEAN COMMISSION	Erasmus+ Master	Guarantees	2014	2020	517	25
EUROPEAN COMMISSION	COSME - Competitiveness for Entreprises and SMEs	Equity	2014	2020	1 319	101
		Guarantees				610
EUROPEAN COMMISSION	Easi - EU Programme for Employment and Social Innovation	Guarantees	2015	2020	96	59
		Capacity building	2016	2024	16	-
		Senior Loans	**	2020	-	-
EUROPEAN COMMISSION	Cultural and Creative Sectors	Guarantees	2016	2020	121	59
		Capacity building	2016	n/a		n/a

* possible extension in 2017   ** signature planned in 2017

CHAPTER 4
BUSINESS YEAR 2016

4.1. EQUITY ACTIVITY

EIF continued to build a strong and integrated ecosystem for European venture capital and private equity in 2016. A growing interest from international investors has created a dynamic fundraising environment, especially in the field of technology and innovation. EIF's mid-market and mezzanine investments have delivered strong returns and boosted considerable exit activity. New equity instruments under the Investment Plan for Europe's EFSI SME Window have substantially increased EIF's capacity in support of SMEs and mid-caps at every stage of development.

In meeting its core objectives for the benefit of European SMEs and mid-caps in need of equity financing, EIF's goal was to leverage on a broad range of investment resources from various investors, policy actors and stakeholders in order to forge a portfolio of catalytic funding instruments for growth and innovation.

In 2016, EIF invested a total of EUR 3.2bn in 117 funds. The total volume of mobilised investments, including EIF's share, was EUR 18.5bn. At the end of the year, EIF's total outstanding equity commitment stood at EUR 12.2bn, which leveraged EUR 63.2bn of total financing.

IMPACT: EQUITY*

Taking a holistic approach to building a strong and well-functioning European risk-capital market

Backed **37 VC FUNDS** in technology, life sciences and social impact

Supported **38 EMERGING MANAGERS** and first time teams

Co-invested **1.7 BILLION** in lower-mid and mezzanine markets

Invested in **7 GROWTH STAGE** venture capital funds

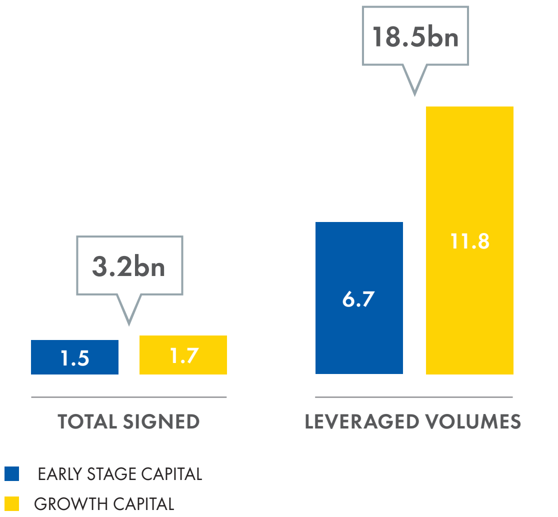
Backed **25 BUSINESS ANGELS** through the European Angels Fund

EFSI

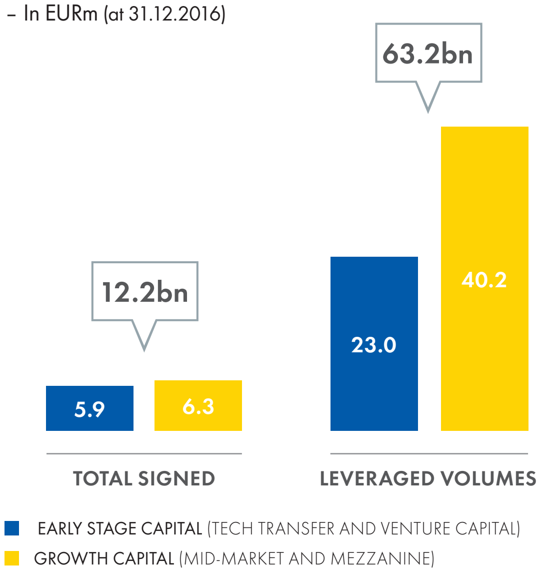
Committed **99.9 PERCENT** of available Risk Capital Resources

* Based on results in 2016

2016 EQUITY SIGNATURES AND LEVERAGED VOLUMES
– In EURm (at 31.12.2016)



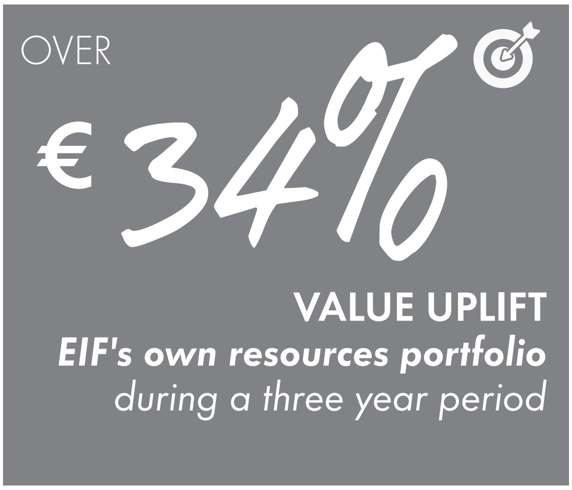
TOTAL OUTSTANDING EQUITY SIGNATURES AND LEVERAGED VOLUMES SINCE INCEPTION
– In EURm (at 31.12.2016)



A substantial share of EIF's equity investments in 2016 related to the ongoing deployment of the Investment Plan for Europe's EFSI SME Window. Using EFSI resources, EUR 1.7bn of EIF financing was committed in 37 new transactions, which is expected to mobilise EUR 11.9bn of investments.

Of these, EUR 1.5bn were committed under the RCR mandate (expected to mobilise more than EUR 10.9bn of investments) and EUR 145m was signed under the EFSI Equity instrument (expected to mobilise over EUR 0.9bn of investments).

EIF's engagement in the rapid deployment of the Investment Plan for Europe's EFSI SME Window has remained anchored in two main objectives. Firstly, EIF is continuously seeking ways to support the European venture capital and private equity industry in reaching out and providing much needed financing for high-growth and innovative SMEs in Europe.



At the same time, EIF's overarching goal is to use these resources for building a strong and sustainable European venture capital and private equity market through an investment activity that is catalytic for the private sector and well-orchestrated with other market players, including national and regional policy actors.

EIF manages a wide range of mandates from a large community of public, semi-public and private investors – for example the ERP Facility on behalf of the German Ministry of Economic Affairs and Energy (BMWi), the Dutch Venture Initiative (DVI), the Swedish Venture Initiative (SVI) and a number of other national initiatives (see Chapter 5 – National and regional mandates). EIF aims to ensure that the different sources of funding are complementary and blending them helps to make a bigger impact in EIF's target investment areas.

Furthermore, EIF has stepped up its cooperation with national promotional institutions (NPIs) in the framework of the Investment Plan for Europe (with a scope and horizon that reaches also beyond EFSI), by creating a platform for the development and rollout of joint products at national level, which will have cross-border relevance and serve to strengthen the European venture capital and private equity markets.

The NPI-Equity Platform was launched in September 2016. It aims at knowledge-sharing and exchange of best practices and builds on the shared objective of EIF and NPIs to support a well-functioning European venture capital and private equity market.

Since the Platform's inauguration, EIF has been able to discuss with NPIs on the effective allocation of joint investments, particularly where such combined capacity would bring added value at the European level, including through EFSI-related activities.

The first tailored investment programme enabled by the NPI-Equity Platform was set up with Cassa Depositi e Prestiti (CDP) in Italy in December 2016. The ITAtech equity investment platform targets a significant market gap in Italy and will provide EUR 200m of equity support to funds investing in technology transfer and the commercialisation of intellectual property. Most importantly, it represents one of the main forms of cooperation concepts that have been envisaged in the framework of the Platform's activities.

Moreover, EIF has been developing and market testing a suite of additional innovative investment solutions that will be implemented through standardised mandate frameworks with NPIs. The first mandate of this kind, a co-investment programme in partnership with the Netherlands Investment Agency (NIA) was approved in October 2016. Seven more agreements of this kind are currently under development with NPIs.

BUILDING A SUSTAINABLE ECOSYSTEM FOR INNOVATION AND GROWTH

For a number of years now, EIF has taken a holistic approach to building a well-functioning risk-capital market in Europe: rather than looking at individual market segments in isolation, EIF has focused on promoting funding tools that serve the full value creation chain of an enterprise's development, from pre-seed and early stages to achieving a global market presence.

Therefore, EIF's investment approach has been following a commercial return logic in market segments that are crucial to Europe's competitiveness and social cohesion, seeking to mobilise private sector capital in target investment areas.

This catalytic effect relies to a large extent on EIF's high quality standards and market expertise, which have allowed EIF to retain its reputation as a reference investor. Similarly to previous years, in 2016, EIF was able to reinforce this role across all its equity business lines as further described below.

MORE THAN

€963m

REFLOWS

of all equity resources

managed by EIF in 2016

BUSINESS ANGELS

The European Angels Fund (EAF) initiative provides equity to business angels and other non-institutional investors with a view to financing innovative companies through co-investments.

EAF's current volume is around EUR 290m, of which approximately EUR 130m have been committed to around 50 business angels for investments over a period

160

innovative SMEs *supported by*
EAF BUSINESS ANGELS
with resources drawn so far

of up to 10 years. Of this, approximately EUR 25m had already been drawn by the end of 2016 in order to match the level of business angel investments into final beneficiaries in the SME sector.

In 2016, EIF rolled out this product in new markets including Denmark, Ireland and the Netherlands. EIF backed 25 new business angels and committed EUR 63.5m in these countries as well as in Germany, Austria and Spain where the EAF initiative has been rolled out already in previous years.

The available resources under EAF Austria were fully committed in 2016, leading to a EUR 10m top-up in December 2016. Furthermore, EIF has been working on EAF's implementation also in Italy and Finland.

A pan-European structure benefitting from EFSI Equity and RCR resources (see Chapter 3 - Institutional mandates) is under consideration in order to encourage business angels and facilitate co-investments in countries that so far have not had a sufficiently large market size to roll out a national EAF initiative. Furthermore, the recent launch of EFSI Equity has opened up the possibility of co-investments with business angels that pursue an investment strategy focusing on social enterprises.

TECHNOLOGY TRANSFER

Technology transfer continues to be a strategic piece in the jigsaw of the European venture capital ecosystem due to its important role in driving innovation and entrepreneurship. Thus, EIF has taken a long-term interest in promoting investments in this field as technology transfer investments are a vital ingredient to ensuring a strong and continuous deal flow in a well-functioning venture capital market. By the end of 2016, EIF committed close to EUR 163m in eight technology transfer funds and accelerators.

In the field of technology transfer and the commercialisation of research results, EIF has undertaken a particular market development effort also in geographies with an emerging venture capital ecosystem. The ITAtech investment scheme for technology transfer in Italy in cooperation with CDP represents the first "tailored NPI mandate" devised in connection with the NPI-Equity Platform.

VENTURE CAPITAL

Growth stage venture capital was at the forefront of EIF's investment strategy in 2016, building a new venture capital market segment targeted at technology companies that need an extra injection of capital on their path leading to internationalisation and global industry leadership.

EIF provided tailored support to the development of Europe based growth stage venture capital funds that are able to lead large financing rounds and compete even at global level in terms of their value added to investees.

As a cornerstone investor with a strong signalling effect to the market, EIF helped funds to attract additional funding and reach their target sizes in order to credibly execute their investment strategy. In this way, EIF enabled Europe-based fund managers to lead international and global funding rounds, opening a new chapter in the development of the entire European growth stage venture capital market.

EIF's commitments into flagship European venture capital funds with global ambitions as well as a proven capability of scaling companies successfully – such as Highland Capital Partners, Holtzbrinck Ventures, Lakestar, EQT Ventures, Atomico and Partech – is expected to have a long-term catalytic affect.

Further to this, EIF launched a EUR 500m co-investment growth facility for venture capital funds under the European Recovery Programme (ERP) mandate in Germany in March 2016 (see Chapter 5 – National and regional mandates). This co-investment product allows funds with highflyers in their portfolios to maintain the lead in late stage funding rounds, thus maximising value creation even if their portfolio's funding requirements exceed the initial investment capacity.

The ERP Co-Investment Growth Facility was rolled out as a pilot project and it is planned to be extended to other European countries in the framework of the NPI-Equity Platform in 2017.

PRIVATE EQUITY AND PRIVATE DEBT FUNDS

In 2016, EIF's mid-market and mezzanine funds became increasingly attractive for investors looking for alternatives to fixed interest products. Continuing the upward trend observed in 2015, this segment of the private equity industry showed strong returns through sustained value creation and renewed exit activity. This substantial boost resulted in more fundraising, which in its turn, has been beneficial for European SMEs and mid-caps.

Positive market conditions were also reflected in EIF's rich deal flow throughout the year. A total of close to EUR 1.7bn were committed to 50 lower mid-market private equity and private debt funds which exceeded the previous year's record volume of signatures by more than 40 percent.

In addition to a growing investment activity in lower mid-market funds, EIF has continued to develop its hybrid debt equity/mezzanine investments, providing continued support to more mature companies seeking organic and international growth or needing restructuring.

EIF together with its longstanding partners, the German Ministry of Economic Affairs and Energy (BMWi), the LfA Förderbank Bayern and the NRW.BANK signed the second mandate under the Mezzanine Dachfonds für Deutschland (MDD) initiative in November 2016 (see Chapter 5 – National and regional mandates).

For the second consecutive year, EIF deployed the EIB EREM Loan Funds Instrument, investing in selective debt funds and demonstrating the market fit of this new asset class through its role as a pioneering limited partner.

EIF has also ramped up its co-investment activity alongside mezzanine funds under the EREM Mezzanine Co-Investment Facility (MCIF), further supporting the most promising managers through eight co-investment structures for a total of EUR 89m.

SOCIAL IMPACT FUNDS

EIF has continued providing strong support to the emerging class of fund managers focusing their investment activities on social enterprises. This new community of entrepreneurs seeks to address mounting challenges to Europe's social cohesion through business models that generate tangible and measurable societal benefits coupled with sound economics.

In this context, EIF's Social Impact Accelerator (SIA) was launched in 2013 with an initial size of EUR 53m under the EREM Social Impact Finance Instruments (see Chapter 3 – Institutional mandates) and reached an investment capacity of EUR 243m in 2015, attracting four other institutional investors.

CLOSE TO

€ 45%

SIA commitments in ***start-ups & early-stage*** *SMEs*

Two new SIA transactions were signed in 2016. In July, EIF signed an investment of up to EUR 15m in Coöperative Social Impact Venture NL Fund I U.A., a new Dutch fund providing early growth and expansion stage capital to innovative SMEs in the social sector.

In November, EIF committed EUR 10m in the French fund Impact Création. The fund's novel strategy, managed by one of the first social impact fund managers in Europe, aims to stimulate economic activity in the most deprived areas in France, by investing into franchise businesses expanding into these regions.

At the end of the past year, EIF's SIA portfolio comprised ten social impact funds focused on building successful social enterprises in France, Germany, Italy, the Netherlands and the United Kingdom.

In order to also offer equity investments to social enterprises in the pre-seed and seed stages as well as to other social sector organisations, three new products were launched under EFSI Equity in support of social entrepreneurship and social finance in October 2016. Firstly, the successful business angels co-investment instrument was extended to the segment of social impact investments so that business angels across Europe will now be able to benefit from this funding tool to scale up their support to social enterprises.

Secondly, the EFSI Equity instrument expands the equity product offer to investments in or alongside financial intermediaries linked to incubators, accelerators and intermediaries that provide incubation services. This new instrument is dedicated to structures operating in the very early stage of social entrepreneurship.

Thirdly, EIF introduced a new product line in the form of a payment-by-result instrument, for example through social impact bonds, enabling intermediaries to draw on co-investment resources for the funding of social intervention projects, which are typically commissioned by national or local governments. This instrument should prove particularly impactful in supporting the activities of social sector organisations in response to the migration crisis in Europe.

The first transactions under the three new products are currently in EIF's investment pipeline.

Strengthening the social dimension of EFSI: Payment-by-result transactions

Payment-by-results transactions are a form of outcome-based commissioning. By focusing on the positive outcomes, an alignment of interests among all relevant stakeholders is created. This enables improved focus and efficiency in spending on social sector interventions, encouraging the development of the most cost-effective solutions, which is therefore expected to increase the value for money in social service delivery. Social impact bonds are a good example of this kind of transactions.

Thanks to EFSI, EIF and the EC have been able to launch a pilot based on this new, innovative financial mechanism with the aim to test the use of the payment-by-result model for funding social enterprises and social sector organisations.

Investments into payment-by-result transactions will typically be made via a special purpose vehicle that provides social sector organisations with upfront funding of their activities, enabling them to effectively deliver on their social mission.

MAKING EUROPEAN VENTURE GLOBALLY COMPETITIVE

25 *European tech and life sciences* **UNICORNS** *financed by EIF-backed funds since 2003*

EIF has sought to stay abreast of and consciously contribute to a market development process that can serve the global competitiveness of European venture capital and private equity as an attractive asset class. The impact of EIF's investment activities therefore stretches far beyond the short term recording of investment volumes and returns.

Overall, venture capital and private equity plays a substantial role in the development of high-growth and innovative companies. In this context, EIF has fuelled the growth of a dynamic ecosystem where the continuous emergence of new-age entrepreneurs creates more and more innovation.

There is also tangible evidence for the return potential of such investments to investors. As an example, in November 2016, one of EIF's portfolio funds, Scottish Equity Partners, exited its investment in Skyscanner through a trade sale at a valuation multiple of close to 50.

At the time of the initial investment in 2007, Skyscanner employed fewer than 30 people and focused primarily on budget airlines in Europe. Today, the company has over 800 employees and is one of the top online travel brands in the world.

The buoyant market environment, especially for digital economy businesses, has not only materialised in a lively exit market for European technology companies, but it has also considerably improved the interest of institutional investors.

Thanks to these developments, EIF was able to scale back its usual share of commitments to levels comparable to the investment size of other participants. EIF has been particularly attentive to this market development in order to ensure complementarity and to act as a catalyst for private sector capital.

CLOSE TO **8 300** **ENTERPRISES** ***supported through EIF equity*** *since inception*

Many of the first time investment teams backed by EIF in the past have matured to established market players with access to a diversified investor base. In light of this success, EIF continued its support to emerging managers and first time teams in 2016 in order to seed the next generation of successful European fund managers.

In 2016, EIF backed 38 emerging managers and first time teams, of which 15 in venture capital and impact investing and 23 in the lower mid-market / mezzanine segment.

The rather receptive market environment for venture capital and private equity has also created an opportunity for EIF to pioneer new market segments that require particular support, including a more specific focus on the growth stage venture capital market segment, and targeted market development efforts in underdeveloped venture capital markets such as Italy and Central and Eastern European countries including Bulgaria and Romania. The first successful exit from a Bulgarian equity fund in April 2016 delivered early tangible proof of the untapped market potential represented by these geographies.

CASE STUDY

Company
C-Feed (Norway)

Type of business
Eco-innovation, fish feed

EU supported financing
CIP GIF1*

C-Feed

Producing feed for baby fish

Copepods, small crustaceans normally found in the sea and freshwater habitats, are destined to become a new Norwegian industrial product. In laboratory conditions near Trondheim, copepods are also reproduced for commercial purposes by C-Feed, a spin-off from Scandinavia's largest independent research organisation SINTEF.

The tiny copepods are used as live feed for recently hatched fish (also known as "fry") that are not yet able to actively feed themselves. Some of the most common species include tuna, ballan wrasse, lobster and halibut, which are in greatest demand by fish lovers around the world. While salmon fry eat dry feed from day one, saltwater species need live start-feed.

C-Feed's innovation in the production of more sustainable fish feeds is timely, not least in the context of the global competition for food resources amidst a growing world population. Norwegian farmed salmon production, for example, is predicted to more than triple by 2050.

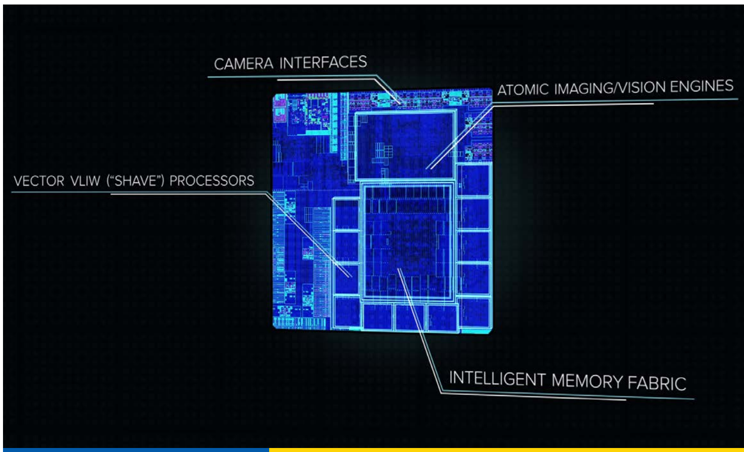
Many researchers and companies have already tried without success to make fish cultivation more efficient and sustainable, but a large proportion of the young fish die during the early stages. Only the copepods and copepod eggs supplied by C-Feed have been able to achieve better results by reducing mortality rates in the critical phases, increasing growth and producing healthier fish.

In February 2016, C-Feed opened a new production plant, which enabled a 10-fold increase of the production capacity and is expected to supply enough copepods to raise 50-60 million farmed fish. **"Thanks to funding from investors, we were really looking forward to making the jump from small-scale production to the industrialisation of copeped cultivation"**, said CEO Rune Bjerke.

SINTEF Venture IV, the Technology Transfer fund commercialising eco-innovation results from its research organisation and the largest investors in C-Feed, is backed by EIF since 2013.

* The Competitiveness and Innovation Framework Programme (CIP GIF1) is a predecessor instrument of InnovFin Equity

www.cfeed.no



CASE STUDY

intel + Movidius

Company
Movidius (Ireland)

Type of business
Hardware development (machine vision processing)

EIF financing
RCR mandate and own resources

Movidius

Giving sight to machines

Drones can see almost like humans, capturing and analysing visual information from different sources. They can avoid obstacles in real time, navigate a map and hover over a fixed position without the need for a GPS signal.

In today's world of fast paced technology developments, we rarely take the time to reflect on how such innovations actually work. What makes drones so intelligent? It's the unique vision processing chips and machine intelligence algorithms developed by the Irish hardware firm Movidius. Its high performance, ultra-low power and programmable chips represent a disruptive innovation amidst the growing relevance of these technologies for image and object recognition.

Similar image recognition systems had already been available on the market, but they were very power hungry and impractical for mass adoption. Movidius' breakthrough came after several years of product development to substantially reduce the chip's power consumption and size, making it suitable for mobile devices, wearables, and small robots such as drones.

In addition, Movidius' machine vision processors are used in technologies powering augmented reality and virtual reality applications, which aim to convincingly blend the real world with the digital, e.g. through eye-tracking, gesture and object recognition, and emotion analytics. Movidius also collaborated in the past with Google on a 3D mapping project.

Capital-E, an early stage venture fund backed by EIF, supported Movidius' development and growth from the beginnings with an initial investment already in 2008. Later on, other investors joined, notably Draper Fisher Jurvetson (DFJ), Draper Esprit and Atlantic Bridge, the latter having a particularly significant role in transforming Movidius into the industry leader it is today.

Movidius has grown enormously over the past years, opening offices in Dublin, Hong Kong and a substantial software development centre in Romania. Driven by the recognition that vision processing and machine intelligence are of critical importance in the wake of robotisation and automatisation, Intel acquired Movidius in September 2016.

www.movidius.com

CASE STUDY

Company
Latimer Group (United Kingdom)

Type of business
Social impact, creative agency

EIF financing
SIA

Latimer Group

Empowering audiences

Traditional agencies use creative teams to generate advertising campaigns and content, which are then distributed to consumers. Latimer Group is different. Their approach is to make content in collaboration with audiences – something they call "co-creation". Passionate about social enterprise, they put young people at the heart of what they do.

Latimer Group focuses on campaigns and brands with a powerful social impact. **"Our mission is to transform young people from passive recipients of services into active agents of change in their communities"**, says Latimer co-founder and managing director Matt Hay.

By involving young people in the co-creation of content (this could be anything from acting in films to generating ideas for brand campaigns), Latimer Group helps them identify and overcome social problems. By giving audiences ownership and allowing them to tell their stories, Latimer is empowering these people to generate an authentic brand voice.

Latimer Group's approach has made a huge impact on the UK advertising industry. Working with countless NGOs and global brands, they have developed campaigns reaching more than 27 countries, collaborating with over 50 000 young people along the way.

After winning the Big Venture Challenge award three years ago, Latimer Group connected with Impact Ventures UK, a social impact fund backed by EIF. The investment helped Latimer Group rapidly expand its global reach, developing a large network of youth influencers across campaigns that deal with on some of the most pressing social problems of our times.

LATIMER

www.latimergroup.org

CASE STUDY

Company
Utimaco (Germany)

Type of business
Hardware development (cyber security)

EU-supported financing
CIP GIF2*

Utimaco

Providing security that builds trust

Cyber security has dramatically gained in importance in recent years across all industries. In an increasingly digitised world, Utimaco has become a leading provider of professional cyber security and compliance solutions, protecting people around the world from terrorism and organised crime, and securing private or sensitive data against theft or abuse.

Headquartered in Aachen (Germany), Utimaco stands for recognised product quality, user-friendly software, excellent support and trusted high security, made in Germany. The company develops lawful interception management systems and data retention solutions that fulfil the legal regulatory requirements applicable to telecommunications companies (mobile and fixed networks) and Internet service providers.

Utimaco is also a technology leader in the field of hardware-based, high-security appliances that ensure the safekeeping of digital assets, such as cryptographic key materials and high value data. Today, Utimaco's hardware security modules are deployed in over 1 000 installations across more than 80 countries and demand is expected to grow at double digits in the coming years.

Backed by EIF, PINOVA Capital, a Munich-based private equity firm focusing on innovative high-growth SMEs, supported Utimaco's continued development. Alongside one additional equity co-investor and NRW.BANK as a mezzanine provider, PINOVA Capital acquired the company in 2013 jointly with members of the management team.

PINOVA Capital helped the existing management team to spin-out from the former parent company and transform Utimaco's two main business lines into independent legal entities.

Utimaco's international expansion reached a milestone with the opening of a subsidiary office in Silicon Valley in 2014. During the holding period of PINOVA Capital, Utimaco experienced a strong growth with the number of employees increasing from 87 to 128 over the past three years.

At the time of investment, PINOVA Capital was a first time fund. EIF's commitment made a significant contribution to the fundraising efforts of the team. EIF invested in May 2016 in the successor fund, PINOVA Fund 2, using RCR resources.

* The Competitiveness and Innovation Framework Programme (CIP GIF2) is a predecessor instrument of COSME Equity

www.utimaco.com

CASE STUDY

Company
Enevo (Finland)

Type of business
Green economy, waste collection

EIF financing
RCR and own resources

Enevo

The smart way of collecting waste

New technologies have made our lives smarter in uncountable ways. But we hardly think of such developments in the context of garbage collection. Enevo is set to change that: in an increasingly urbanised world, the Finnish start-up helps cities, waste management companies and recyclers to optimise their processes, leading to sizeable efficiency savings and greater sustainability.

Founder Fredrik Kekalainen spent several years in the smartphone industry. This explains his affinity to technology, which in turn, helped him recognise the inefficiencies in the waste collection industry that could be addressed through better use of technology. In the traditional way, the collection of waste and recyclables is done using fixed schedules and static routes where containers are collected regardless if they are full or not.

Enevo's smart wireless sensor proposes a new way: by collecting fill level data from waste containers and then automatically generating demand-based schedules, garbage is picked up when and where it is really necessary. Fill level measurement is also combined with a dynamic route planning service, resulting in optimised fuel consumption, less emissions, and an overall smarter approach to the waste management process.

To fuel its international expansion, Enevo raised funding from several renowned business angels and VC investors including Earlybird Venture Capital, an international venture capital firm backed by EIF. The company's headquarters are in Finland, with regional offices recently opened in Germany, United Kingdom, United States, Japan and Hong Kong.

www.enevo.com

4.2. GUARANTEES AND SECURITISATION ACTIVITY

A continued strong market demand under the Investment Plan for Europe's EFSI SME Window reinforced the importance and significantly increased the pace of EIF's deployment of core debt financing instruments in support of innovation, competitiveness and job creation. The implementation of the SME Initiative, alongside EIF's achievements in developing a stronger securitisation market and the signature of new diversified loan funds transactions, all enabled EIF to deliver well beyond expectations in 2016.

Financing activity in Europe was generally affected by structural changes in the banking sector, including a more stringent regulatory environment, widespread capital constraints for financial institutions and generally low GDP growth. European banks continued to be impacted by low interest rates on assets and declining intermediate margins, resulting in serious repercussions on lending capacities. Consequently, significant market fragmentation and market gaps in SME financing persisted throughout the year, especially in higher risk sectors such as lending to innovative enterprises.

EIF's guarantees aimed to provide effective risk-sharing and capital relief solutions for financial intermediaries, whilst our investments in loan funds and securitisation activities supported alternative financing channels. The core product offering encompassed SME debt finance portfolio guarantees/counter-guarantees, guarantees for SME securitisation transactions, investments in loan funds, and guarantees for loans to internationally mobile students.

These activities were deployed using EIF's own capital as well as resources under mandates from the EC and the EFSI guarantee, the EIB and national or regional counterparts, thereby maintaining EIF's role as the primary provider of risk-financing for European SMEs and small mid-caps.

42%

of expected mobilised investments in
TRANSACTIONS WITH NPIs
under the EFSI SME WIndow

IMPACT: GUARANTEES and SECURITISATION *

Sharing risk with financial institutions and reviving the securitisation market for the benefit of SMEs

Expected to leverage	Expected to support	Expected to contribute to
23.6 BILLION of FINANCING	**174 500** enterprises to INNOVATE and GROW	**800 000** SUSTAINED JOBS

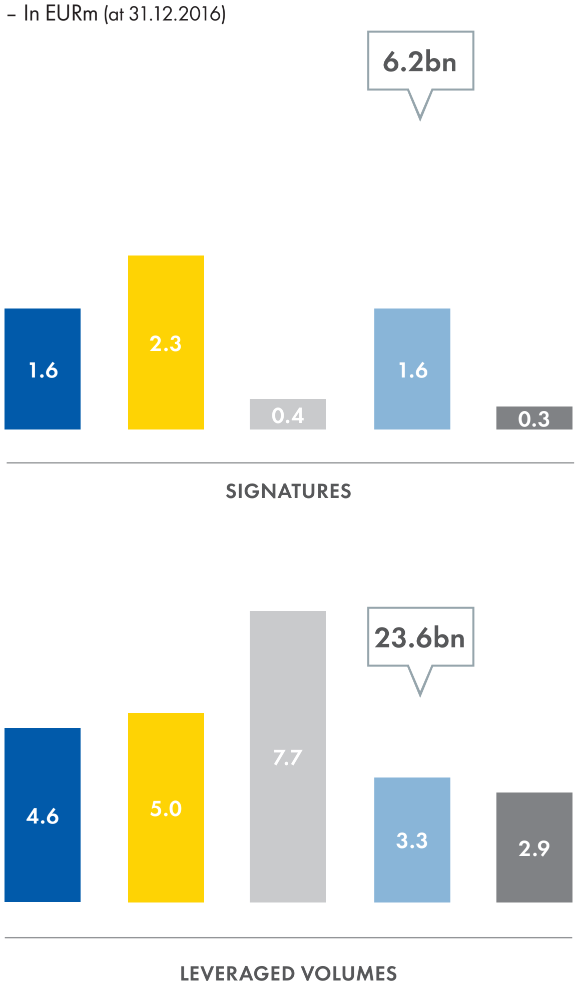
* Based on results in 2016

EIF scaled up substantially its support and outreach to SMEs by expanding its network of financial intermediaries, including commercial banks, national promotional institutions (NPIs), leasing companies, private and public guarantee schemes, loan funds and other financial counterparts that provide or guarantee financing to SMEs.

Overall, 2016 was another record year in terms of signatures reaching EUR 6.2bn, compared to EUR 4.7bn in 2015. Total commitments are expected to mobilise a financing volume of EUR 23.6bn.

2016 GUARANTEE AND SECURITISATION SIGNATURES AND LEVERAGED VOLUMES

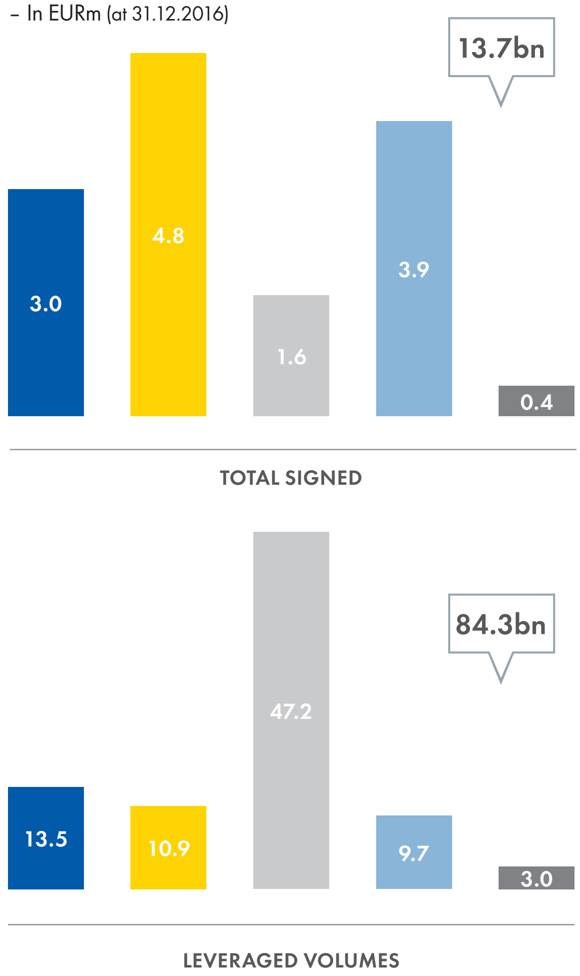
– In EURm (at 31.12.2016)



- ABS/SECURITISATION
- INNOVFIN SMEG
- COSME LGF/Erasmus+/CCS
- REGIONAL/SMEi
- DIVERSIFIED LOAN FUNDS

TOTAL OUTSTANDING GUARANTEE AND SECURITISATION SIGNATURES AND LEVERAGED VOLUMES SINCE INCEPTION

– In EURm (at 31.12.2016)



- ABS/SECURITISATION
- RSI/INNOVFIN SMEG
- CIP SMEG COSME LGF/Erasmus+/CCS
- REGIONAL/SMEi
- DIVERSIFIED LOAN FUNDS

STIMULATING GROWTH, COMPETITIVENESS, INNOVATION AND JOBS

The year 2016 was marked by a particularly strong deployment of debt financing solutions under the Investment Plan for Europe's EFSI SME Window with an all-time-high number of signatures under the EU Finance for Innovators (InnovFin) and Competitiveness for Enterprises and SMEs (COSME) programmes (see Chapter 3 – Institutional mandates), enabling EIF to make a sizeable contribution to a more rapid achievement of key EU policy objectives.

While it is still premature to fully assess the impact of EIF's engagement, an initial analysis shows a significant increase in annual turnover and total number of employees for SMEs supported, both under InnovFin and under COSME.

InnovFin remained the programme of choice for numerous financial intermediaries due to the inherent uncapped nature of the guarantee that provides capital relief and loss sharing on a pari passu basis, thus enabling counterparts to provide financing for SMEs at more favourable conditions.

36%

of ***expected mobilised INVESTMENTS in RDI*** *under the EFSI SME Window*

Against this background, EIF nearly tripled the number of InnovFin guarantee signatures compared to the previous year, concluding a total of 78 new InnovFin agreements, amounting to EUR 2.3bn and representing an expected total leveraged financing of EUR 5bn for innovative enterprises. Of these, 62 new transactions were backed by the EFSI guarantee.

Since the InnovFin guarantee is also available to beneficiaries in associated or partner countries under the Horizon 2020 programme, EIF was able to maximise the programme's outreach and absorption. In co-operation with larger banking groups – including the ProCredit Group, the UniCredit Group and seven regional German NPIs under the leadership of NRW. BANK – EIF developed flexible umbrella structures with a multi-country or multi-region focus, reaching out to beneficiaries and bridging market gaps both in EU Member States and beyond.

The ProCredit Group agreement, for example, with a portfolio volume of EUR 270m, covered not only three EU Member States (Bulgaria, Greece and Romania) but also five Horizon 2020 associated countries: Albania, Bosnia and Herzegovina, FYROM, the Republic of Moldova and Serbia.

Novel types of guarantee transactions with debt funds enabled EIF to diversify its risk-financing toolkit and further scale up its impact in the financing of innovative SMEs. The EUR 25m InnovFin signature with Entrepreneur Venture in April 2016 was a reference agreement in this regard. Entrepreneur Ventures is a French fund manager company that channels financing to technology and research-driven SMEs and small mid-caps mainly in the form of equity, through buying convertible bonds issued by those enterprises.

COSME GUARANTEE

20 700

JOBS SUPPORTED EACH MONTH *at the current pace of deployment*

Under the InnovFin agreement, EIF shares the risk with Entrepreneur Venture on each bond, thus lowering the interest rate and making the financing more favourable for the final beneficiaries. In addition, the guarantee helps Entrepreneur Venture increase the size of investments.

Similarly, by sharing credit risk under the COSME guarantee, EIF allowed financial intermediaries to support riskier SMEs.

The capped guarantee product has been particularly attractive for guarantee schemes and promotional institutions as it helps to increase guarantee volumes and finance SMEs with insufficient collateral.

In 2016, EIF signed 41 new COSME LGF agreements for a total guarantee amount of EUR 337m, supporting EUR 7.5bn of financing in 16 countries. Of these, 39 transactions were backed by EFSI.

The creation of a dedicated EFSI Thematic Investment Platform for Italian SMEs in cooperation with Cassa Depositi e Prestiti (CDP) was a milestone event in December 2016. It is the first platform promoted by an NPI and EIF, encompassing a risk-sharing arrangement between CDP, EIF and Italy's Ministry of Economy and Finance (MEF) to provide guarantees and counter-guarantees to financial institutions on new SME debt financing under the EFSI SME Window.

The platform is expected to generate at least 25 percent higher leverage than stand-alone guarantee transactions under EFSI and the first transaction was immediately concluded, representing a guarantee agreement of EUR 112.5m under COSME LGF. The operation is estimated to support a portfolio of up to some EUR 6bn of investments to the benefit of more than 67 000 Italian SMEs, representing the largest COSME transaction under EFSI since the launch of the Investment Plan for Europe.

The launch of the thematic investment platform in Italy underlined EIF's repeated ability to create added value on the market by blending different sources of funding and ensuring that public resources can be maximised through well-tested financial instruments.

1 in 3

supported SMEs
owned by a
FEMALE ENTREPRENEUR

Another EFSI signature of similarly novel nature was concluded in December 2016 with the Strategic Banking Corporation of Ireland (SBCI), an Irish NPI established in 2014. This COSME guarantee agreement, covering a loan portfolio of EUR 100m, allows the institution to roll out its first risk-sharing programme, alongside its usual SME on-lending product offer.

SBCI is expected to launch a number of risk-sharing products targeting perceived market failures in Ireland. The first one is being developed in co-operation with the country's Department of Agriculture Food and the Marine (DAFM), entailing a loan scheme allowing to alleviate cash-flow/liquidity constraints and to provide access to working capital to 2 000 SMEs in the Irish farming sector.

In total, around 280 000 SMEs are expected to benefit from guarantee transactions approved so far with the support of the EFSI-backed COSME guarantee. Close to 80 percent of the COSME supported loans were granted to companies with fewer than 10 employees, suggesting that EIF's impact in sustaining competitiveness is particularly tangible for smaller enterprises that usually struggle the most to access finance.

INVESTING IN EDUCATION AND CULTURE

In 2016, EIF signed four new agreements for a total amount of EUR 16.2m under the Erasmus+ Master

Student Loan Guarantee. These agreements will enable financial intermediaries in France, Ireland, Luxembourg and Turkey to disburse EUR 100m to internationally mobile students, facilitating easier access to quality education programmes in Europe.

Furthermore, EIF has been working with the EC to enhance the facility's design. In this regard, EIF's recent partnership with the University of Luxembourg allowed a wider assessment of the financing needs of this sector. As a pilot, the agreement will allow internationally mobile students to defer tuition fees and student accommodation rent payments of up to EUR 18 000 for six years or more.

The new Creative and Cultural Sectors programme (CCS, see Chapter 3 – Institutional mandates) was equally well received by the market. EIF signed three CCS transactions within six months after the programme's launch for an amount of EUR 12.7m. Financial intermediaries in France, Romania and Spain will support SMEs in these sectors through a total financing volume of EUR 86.6m. The pipeline of CCS signatures is expected to remain strong in 2017.

BOOSTING SME LENDING THROUGH REGIONAL ACTIVITIES

Building on the success of the JEREMIE mandate, EIF launched two new initiatives in the French region of Languedoc-Roussillon in the second half of 2016 (see Chapter 5 – National and regional mandates). Under each mandate, one transaction has already been concluded, guaranteeing a total loan amount of EUR 223.7m.

The Western Balkans Enterprise Development and Innovation Facility WB EDIF experienced very strong demand for its SME loan guarantees and the facility was increased by EUR 16.1m. As a result, five new agreements were signed with members of the ProCredit Bank Group in Serbia, Kosovo and FYROM, as well as with CKB in Montenegro and the Raiffeisen Bank in Albania, making EUR 107m available for disbursement to SMEs in these countries.

The Cyprus Entrepreneurship Fund (CYPEF) also showed good performance. After the successful deployment of the initial EUR 30m resources, a EUR 30m increase was agreed with the Bank of Cyprus, creating a total loan volume of EUR 120m for beneficiaries in the Cypriot SMEs sector.

Under the Greater Anatolia Guarantee Facility (GAGF), the last reallocations were made in order to maximise the utilisation of the remaining resources.

EXPANDING THE SME INITIATIVE

Portfolio guarantees under the SME Initiative (see Chapter 5 – National and regional mandates) were initially launched in Spain and in Malta, and the implementation continued successfully in Bulgaria, Finland, Italy and Romania in the course of 2016.

Since inception, the SME Initiative in Spain has enabled loans amounting to EUR 5.6bn for Spanish SMEs in cooperation with nine financial intermediaries, of which three new partners in 2016 including one umbrella agreement covering 19 subsidiaries throughout Spain.

Within one year from the signature of the first guarantee agreements, close to 30 000 SMEs have already benefitted from close to EUR 2.6bn under this facility.

In Malta, two guarantee agreements were signed, which led to a full allocation of the available funds, creating a loan volume of more than EUR 60m for new SME financing.

The SME Initiative in Bulgaria was also marked by a quick uptake through ten financial intermediaries, enabling more than EUR 600m of new loans and leases to Bulgarian SMEs.

Finland launched the SME Initiative in September 2016 and a full allocation of the facility is expected in the first quarter of 2017, with the aggregate amount of SME loans expected to reach EUR 400m.

Romania was the latest country to join the SME initiative. Following the publication of the call for expression of interest in October 2016, the selection of financial intermediaries is ongoing and the signatures are foreseen in the first quarter of 2017.

The SME Initiative in Italy pioneered the adoption of the securitisation instrument that represents the second pillar of the facility's framework. The instrument can be implemented through unfunded and cash (true sale) securitisation in the form of either embedded or bilateral EIF guarantees. In turn, financial intermediaries will provide new financing to SMEs located in Southern Italy at reduced pricing. After the launch of the call for expression of interest in October 2016, the mandate is expected to be fully implemented in 2017, generating a total securitised loan volume of EUR 2bn.

PAVING THE WAY FOR MORE CAPITAL MARKET FINANCE TO EUROPEAN SMES

EREM diversified loan funds (DLF, see Chapter 3 – Institutional mandates) enabled the EIB Group to establish itself as a key contributor to the development of a financing channel that links savings with growth, which is a key objective of the Capital Markets Union.

By the end of the year, six EREM loan fund commitments were signed for a total amount of EUR 301.3m, confirming a robust implementation pace. These funds usually have a pan-European focus, aiming to create almost EUR 3bn of total financing for SMEs and small mid-caps in Belgium, France, Italy, the Netherlands, Spain and the United Kingdom.

As an example, EIF was a cornerstone investor in the BNP Paribas European SME Debt Fund using EREM resources in 2016. The fund reached EUR 500m of total commitments from private institutional investors and it is the first SME-focused fund being awarded the European Long Term Investment Fund (ELTIF) label in France, due to its focus on supporting unlisted companies and SMEs.

BUILDING UP NEW SECURITISATION PORTFOLIOS

Despite the ongoing decline of volumes in the European SME securitisation market, EIF closed a record year in issuing guarantees and mobilising resources with broad geographical coverage.

Five guarantee agreements covering mezzanine tranches of SME securitisations under EREM amounted to a total commitment amount of EUR 558.8m. Thanks to EREM, the EIB Group's role was pivotal in a number of transactions in different countries including Austria, France, Germany, Italy, Poland and the United Kingdom. One agreement was concluded with a multi-country focus. EIF participated in transactions for funding purposes as well as synthetic SME securitisation transactions.

In light of the difficult market environment, EIF's regular participation in the securitisation market was instrumental in supporting the ABS transactions in the European SME sector. Our involvement was particularly beneficial in less developed markets (e.g. Greece, Poland, Portugal), as well as in supporting niche players such as leasing companies and fintechs (financial services based on technology, particularly marketplace lending platforms).

In addition, the provision of guarantees for mezzanine tranches in synthetic securitisations for SME portfolios allowed banks to release regulatory capital that can then be deployed for new SME lending.

The creation of a uniform regulatory regime that would replace sectoral legislations related to due diligence, risk retention and disclosure/transparency and would apply equally to all institutional investors, was among the most important priorities of the Capital Markets Union discussions in 2016.

The proposed new regulation aims to repeal securitisation provisions appearing in other EU legislative measures (CRR, Solvency II, UCITS/AIFMR) and replace them with a set of common provisions. The aim would be to define a category of securitisation transactions which will be simple, transparent and standardised (STS transactions) and attract more favourable treatment.

The EIB Group, leveraging on EIF's structured finance capabilities, participated strongly in several consultations related to a number of amendments in the securitisation regulation, especially those concerning SME portfolios. In conclusion, the proposed new regulatory environment for securitisation transactions foresees higher capital charges for future transactions under the new regime; particularly in light of the fact that even the capital charges for STS transactions are envisaged to be higher than under the current regime.

EIF would welcome further changes, especially with respect to synthetic transactions and the reliance on rating agencies. EIF believes that in order for the synthetic securitisation market to be fully revived, the eligible range of investors that can participate in such deals has to be expanded. This view has also been shared by the European Banking Authority (EBA) in their report on synthetic securitisation published in December 2015.

Meanwhile, EIF's involvement in warehousing transactions continued in 2016. The UK asset finance market continued to be dominated by a few, large and typically bank-owned leasing providers, but a number of smaller, independent asset finance providers were also active in the field. The latter have traditionally relied on funding provided by large banks. Since the onset of the financial crisis and largely due to the deleveraging process, large banks have limited their overall exposure to such mid-sized and small asset finance providers.

In this context, EIF carried out five warehousing transactions over the past two years, providing funding to non-bank lessors to allow them to grow their own portfolio of SME leases. Three of those transactions were deployed in partnership with the British Business Bank under the ENABLE programme, a scheme designed to specifically support selected asset finance providers through funding generated by means of securitisation.

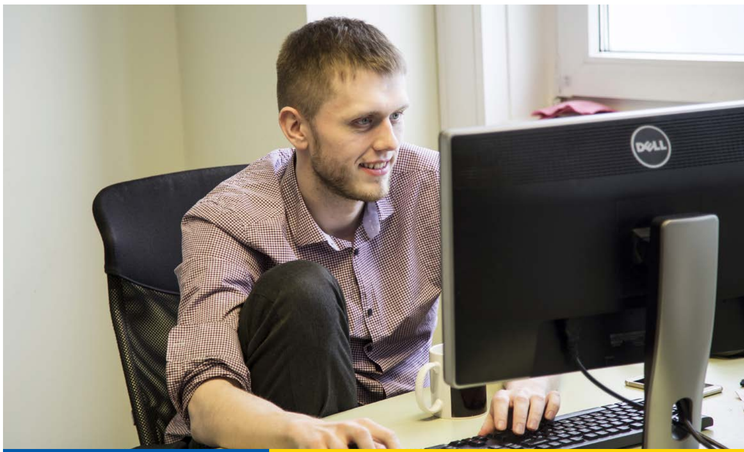
EIF also participated in two breakthrough transactions: firstly, EIF guaranteed GBP 44m of the senior tranche of the securitisation originated by the largest UK SME P2P lender, Funding Circle; and secondly, EIF invested in the senior tranche of the first public SME securitisation in Greece following the financial crisis.

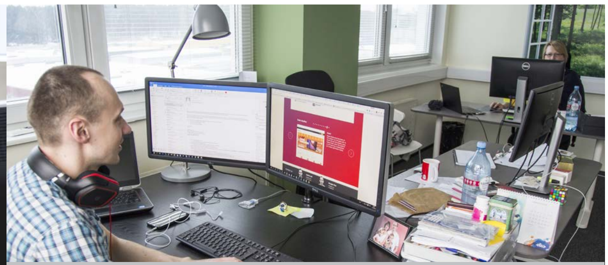
Overall, EIF experienced an increasing interest from financial institutions across Europe to capitalise on securitisation for achieving regulatory capital relief and despite the ongoing regulatory framework uncertainties, EIF believes in the continuation of this trend during 2017.

STEPPING UP CO-OPERATION WITH NPIS IN SECURITISATION

In July 2016, EIF and seven NPIs launched the EIF-NPIs Securitisation Initiative (ENSI) to stimulate SME lending via capital markets. The initiative's principal objective is to use securitisation techniques to enable financial intermediaries to provide more financing to SMEs. This is mainly achieved through increased funding to financial intermediaries; however, ENSI could also help to lower the capital requirements of originators, reduce portfolio concentrations and potentially deconsolidate portfolios of SME exposures. This goes hand-in-hand with a commitment by financial intermediaries to lend the freed-up capital to SMEs.

In light of the ENSI's success, EIF launched a multi-country Investment Platform for SMEs through securitisation in December 2016, which is expected to make further use of EFSI resources and crowd in additional funding from NPIs and EU Member States. The proposed platform is expected to be finalised in the first quarter of 2017, allowing its members and EIF to cooperate under a new securitisation instrument backed by EFSI.





CASE STUDY

Company
Opus Online (Estonia)

Type of business
Digital marketing, web design

EU-supported guarantee
COSME LGF, EFSI

Opus Online

Crafting cutting-edge websites and mobile apps

Opus aims to be the company of choice for creating beautiful and efficient websites and building ingenious mobile apps in Estonia and beyond. With over 500 projects delivered successfully, the team of young Estonian entrepreneurs, designers and web developers are dedicated to helping companies adapt to the digital age.

Opus has grown substantially since its establishment in 2009, currently employing over 60 people in offices located in Tallinn, London and Seattle. The company delivers everything from an initial idea to the final execution of the project. Opus has not only worked with some of the biggest brands and projects in the private and public sectors, but it has also helped many start-ups devise a professional online presence.

"We pride ourselves on being a leader in the web development field", says Andre Lall, CEO. In times in which customers are spending increasingly more time on mobile devices, Opus' award-winning app solutions have turned traditional businesses into innovative players in their field. Opus' web development team for example, created a thriving e-commerce solution for Estonia's oldest books retailer, Rahva Raamat.

Opus obtained an EU-guaranteed loan under the COSME LGF programme from EIF's financial intermediary KredEx. The intermediary's loan portfolio is supported by the Investment Plan for Europe's EFSI SME Window.

www.opusonline.co

CASE STUDY

Company
Neobuto (Czech Republic)

Type of business
Retail, children's shoes

EU-supported guarantee
COSME LGF, EFSI

Neobuto

Children's shoes business takes successful first steps

It's not until you become a parent that you realise why it's so important for children to wear properly fitting footwear. Driven by the demand of a growing segment of conscious customers, the range of available children's shoes has developed rapidly over the past years to include healthy, natural and barefoot-like options.

To bring this choice of products closer to her clientele in Brno, Lucie Prokešová obtained an EU-supported loan through Komerční banka, an EIF financial intermediary under the COSME LGF facility. Her shop, Neobuto, was opened in early 2016.

The attentive and professional advice in helping young customers to find their perfectly fitting footwear has made Neobuto famous also outside the city. Customers sometimes come from as far as 200 km away – and from different countries including the neighbouring Slovakia and Austria – to visit the shop and explore the new brands of children's shoes that were previously not very well known on the Czech market.

Most recently, Neobuto started cooperating with a children's physiotherapist as well with a view to expanding the range of shoes and effectively responding to specific needs such as flatfoot. Following the company's success in the Brno region, the plan is to open a new branch next year in Prague.

The COSME loan agreement that helped Lucie Prokešová establish the business benefited from the backing of the Investment Plan for Europe's SME Window managed by EIF.

www.neobuto.cz

CASE STUDY

Company
Gécos (France)

Type of business
Consultancy, construction

EU-supported guarantee
InnovFin SMEG, EFSI

Gécos

Towards a greener and cheaper energy future

Gécos is a consulting company specialised in providing construction and modernisation solutions to service stations, fuel depots and car-washing points to ensure compliance with the latest legal and environmental requirements.

With engineers, project managers, design specialists and construction experts on board, Gécos offers customised solutions to their clients, from feasibility studies to installation and final delivery. Their know-how and proven methods guarantee long-term security and conformity, which is a key ingredient of their success in obtaining assignments from city councils, oil companies and large commercial retailers.

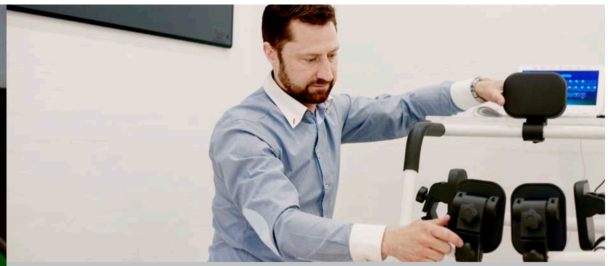
To achieve this, Gécos underwent gradual transformation since its establishment in 2000 in Toulouse. Recognising the growing need for eco-friendly solutions, Managing Director Cédric Lecina had a vision: to adopt a more socially and environmentally conscious approach to the way his company works and the services it offers. A milestone was reached when Gécos received an accreditation from the French Environment Ministry to perform periodic inspections, in addition to the development and construction of sites.

This posed a new challenge: Cédric Lecina found himself both short of staff and lacking the financial capacity to fully support his company's re-positioning. He turned to Groupe BPCE, an EIF financial intermediary, in search of a solution in the summer of 2016. The EU-guaranteed loan helped Cédric to finance his diversification strategy, as well as buying the necessary computer equipment.

"This loan was a life-saver for my company. Without it, we would have needed to slow down, delay or even completely stop our growth due to our inability to keep up with the rhythm imposed upon us by the market demand", explained Cédric.

The company's expansion across France, including new branches in Bordeaux, Marseille, Nantes, Paris and Dijon, as well as a subsidiary in Romania, led to the creation of 10 new jobs over the past year. Cédric is planning to double that number in 2017, not least in the light of the many innovation projects currently under development with existing and new clients.

www.opusonline.co



CASE STUDY

Company
InnovAid (Denmark)

Type of business
Interactive rehabilitation assistance

EU-supported guarantee
InnovFin SMEG

Interactive rehabilitation

Better quality of life for disabled people

More than one billion people in the world today suffer from a disability. Luckily, fast paced technology innovations – such as those of Martin Hjort, Danish engineer and owner of InnovAid – are rapidly improving the array of rehabilitation methods and helping people with disabilities to become more independent.

Martin has a son with cerebral palsy, a form of brain injury that may result in muscle tone, coordination or speech impairments. He accompanied his son to physical therapy and started to become interested in developing a more efficient workout to improve his son's quality of life.

Martin developed an innovative system, the Happy Rehab, combining specially designed interactive computer games with a dynamic standing frame. The cognitive and motoric exercises activate certain parts of the brain that lead to increased balance and mobility over time.

Following the success of his first product, Martin designed other training systems for rehabilitation including TREAX, the multi-coloured pads that help persons recover in a more playful way, for example after suffering a stroke.

InnovAid has been selling its products primarily in Denmark and Norway while interest has also been growing from abroad. However, funds were not easy to raise for international expansion given the lack of sufficient collateral.

Turning toward Vaekstfonden, an EIF financial intermediary, Martin obtained an EU-supported loan under the InnovFin programme that provides access to finance at more favourable conditions for innovative SMEs.

"The InnovFin loan enabled me to increase the production capacity and hire more staff. I am confident that the international expansion of my business will result in a doubling of sales over the next two years", says Martin Hjort.

www.iaid.dk

CASE STUDY

Company
Brújula (Spain)

Type of business
E-commerce, tourism

EU-supported guarantee
SME Initiative

Brújula

Boosting tourism online

There is no doubt that we are living in an age of travel. At the same time, online communication is ever more present in our everyday life. Brújula is a company active on the interface of these two fields: they are an IT consultancy specialising in information systems for the tourism industry. Headquartered in Palma de Mallorca, Brújula also has a software development office in Granada and a branch in Santiago (Chile).

Brújula - meaning compass in Spanish - works with clients from the private sector but also public administrations in both Spain and Chile, which are active in the tourism sector. They offer across-the-board services, ranging from technological consultancy to installation and maintenance of applications and information systems, web-design, content development, online branding and marketing.

Their approach aims to make tourism offers more attractive for clients by providing tailor-made travel solutions according to the clients' particular needs. At the same time, they are able to offer digital services to public administrations and facilitate the work of civil servants in the tourism sector. The company grew at an astonishing rate of 25 percent in 2016 and the expectations are similar for the coming years.

Such rapid growth, however, often comes with numerous challenges, not least related to cash flow. In order to have sufficient liquidity during this period of intensive business development, Brújula turned to Bankia for an EU-supported loan guaranteed by EIF within the framework of the SME Initiative in Spain.

As Josep Lluís Vidal, Brújula CEO noted: **"When Brújula started in the year 2000, we had a breakthrough approach. Without this financing, however, our steady expansion would not have been feasible."**

www.brujula.es

CASE STUDY

Company
Teasdale Motorcycles (United Kingdom)

Type of business
Retails, motorcycles and accessories

EIF financing
Own resources (securitisation)

Teasdale Motorcycles

The first choice for motorcycle enthusiasts

In 2002, Andy Walker decided to turn his love for motorcycles into a career. Since then, Teasdale Motorcycles has flourished and they currently hold the franchise for Aprilia, Moto Guzzi, Norton and KTM Street Motorcycles.

Teasdale Motorcycles are currently midway through a total redevelopment of their showroom, located in North Yorkshire, upsizing by two-thirds of its original size. They have a huge variety of new and used motorcycles, clothing and accessories, whilst also operating full onsite repair facilities. They are now working through the process of introducing a second floor showroom area to expand their bike range and move the clothing department upstairs.

Banks had been unwilling to finance businesses in the aftermath of the credit crunch and Teasdale Motorcycles struggled initially, being offered very difficult lending terms. Hence, their significant growth would have been virtually impossible without the loans obtained from Funding Circle, a peer-to-peer lending platform backed by EIF as part of its growing securitisation activity.

The funding helped Teasdale Motorcycles acquire an online e-commerce website, which enabled the business to expand into bigger freehold premises, acquire a broader product range, increase head count and boost revenues through impressive sales growth. Up to 10 jobs have been created since Teasdale Motorcycles first borrowed through Funding Circle.

Teasdale Motorcycles is still growing. Once they have built their second floor showroom, they will be able to bring in more motorcycles and drive sales even further with the addition of at least one more sales representative. Ultimately, their goal is to become the largest motorcycle dealership in the North of England.

www.teasdale-motorcycles.co.uk

4.3 INCLUSIVE FINANCE ACTIVITY

IMPACT: MICROFINANCE and SOCIAL ENTREPRENEURSHIP*

Empowering micro-borrowers and social enterprises for inclusive economic growth with opportunities for all

Supported **19 600** **MICRO-ENTERPRISES**

Expanded EaSI to **20 COUNTRIES** **IN THE EU AND BEYOND**

Expected to mobilise **OVER €1 BN** **INCLUSIVE FINANCE**

* Based on results in 2016

Inclusive finance has remained high on the EU's and EIF's agenda, especially in the context of European efforts to integrate the more vulnerable groups of our societies into the lifeblood of new economic growth. In this light, EIF has continued to attach great importance to social inclusion, pushing ahead with the rapid deployment of instruments targeting both micro-borrowers and social enterprises.

Despite the difficulties inherent to the field of microfinance and social entrepreneurship, such as the broad variation of legal frameworks, differing definitions and limited know-how across European markets, EIF has continued to channel financial support from the European Union to final beneficiaries in pursuit of real impact on the ground. In particular, EIF financial instruments targeting inclusive finance solutions achieved an impressive take-up by the market, expected to surpass the EUR 1bn mark in mobilised funds across all instruments dedicated to this segment.

The investment period of the European Progress Microfinance Facility (EPMF), an initiative supported by the EU, ended in April 2016 and EIF concluded the disbursement of loans granted to financial intermediaries aimed at micro-enterprises under this programme.

88%

start-ups among EPMF beneficiaries

Since its launch in 2010, EPMF is estimated to have mobilised EUR 440m of overall support to around 51 000 micro-borrowers, mainly belonging to vulnerable groups with limited access to traditional funding channels. In early 2016, three agreements were signed in Poland, Portugal and Romania, committing EUR 12.3m, which are expected to leverage EUR 18.6m of financing.

STAYING ENGAGED WHERE IT MATTERS THE MOST

In parallel, EIF has progressed with the steady implementation of the EU's Programme for Employment and Social Innovation (EaSI, see Chapter 3 – Institutional mandates) that represents the next generation of EU programmes dedicated to micro-entrepreneurs. EaSI is also the first comprehensive EU-level instrument devoted to supporting social entrepreneurship, an area that is gaining considerable importance in the European economy.

With the number of incoming applications for the EaSI Guarantee Facility already exceeding 50 by mid-2016, it quickly became apparent that the indicative budgetary allocations could not meet demand. As a result, the front-loading of EFSI budgetary allocations was agreed with the European Commission (EC) and signed in December 2016.

2 in 5
EU EaSI
microfinance transactions
with ***NON-BANKS***

This boosted EaSI with additional firepower from the Investment Plan for Europe's EFSI SME Window, allowing EIF to capitalise on the very high demand and proceed with new agreements while maintaining the current high rate of deployment.

In 2016, EIF signed 29 EaSI guarantee transactions – of which 23 microfinance and six social entrepreneurship agreements totalling EUR 32.2m – with financial intermediaries across the EU and also neighbouring countries including Albania, Montenegro and Serbia. Two guarantee transactions of a maximum portfolio volume of EUR 19m benefitted from the additional backing of the Investment Plan for Europe, which in turn, is expected to mobilise EUR 27m of investments.

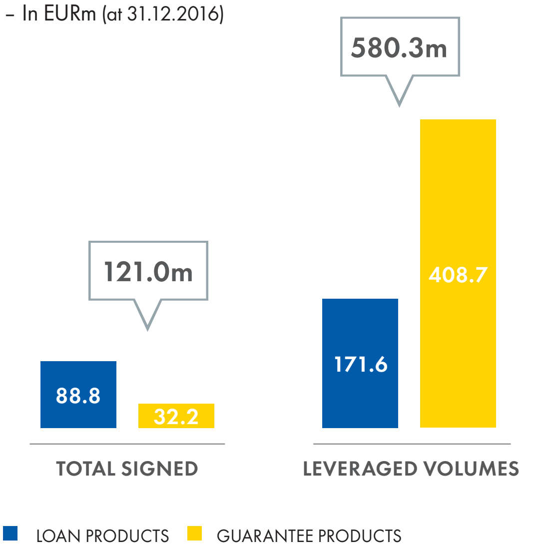
Under the social entrepreneurship strand, where the maximum loan size can reach EUR 500 000, the first signature was concluded in France in December 2015. Six new agreements followed, bringing the total amount of commitments in 2016 to EUR 5.5m in Austria, Poland, Spain and the United Kingdom. These transactions dedicated to supporting social entrepreneurship are expected to generate EUR 83.1m of financing.

AVERAGE TRANSACTION SIZE
€ 89 000
under the ***EU's EaSI***
social entrepreneurship

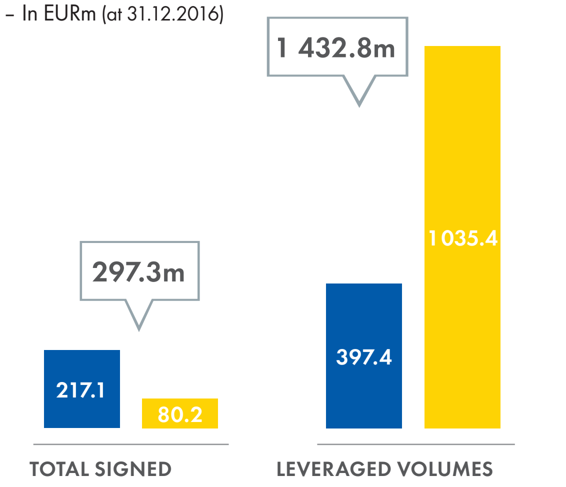
Since the EaSI guarantee's inception, a total of 40 agreements contributed to the signature of EUR 59.4m in 20 countries, which are expected to mobilise EUR 750.5m of financing for micro-borrowers and social enterprises. Hence, more than half of the total budget foreseen for the 2014-2020 period had already been committed within the 18 months following the launch of the programme.

Building on the EPMF experience, EaSI has been designed in close co-operation between the EC and EIF to include two other new elements: a Code of Good Conduct for unregulated micro-credit providers; and a broader geographic scope that includes the Western Balkans, Iceland and Turkey, as evidenced by new signatures in these countries.

2016 INCLUSIVE FINANCE SIGNATURES AND LEVERAGED VOLUMES
– In EURm (at 31.12.2016)



TOTAL OUTSTANDING INCLUSIVE FINANCE SIGNATURES AND LEVERAGED VOLUMES SINCE INCEPTION
– In EURm (at 31.12.2016)



At the same time, EIF has placed emphasis on business development services, seeking to encourage banks to partner with NGOs and other third parties in order to support their business development. In our quest to remain impactful and create added value on the market, EIF has sought to ensure that our financial intermediaries can act as competent referral points even to the most vulnerable borrower groups who are often excluded from traditional sources of debt finance.

45%

*of **EPMF beneficiaries** **UNEMPLOYED** or **INACTIVE** in the labour market previously*

DIVERSIFYING OUR TOOLKIT FOR GREATER IMPACT

In line with EIF's intention to broaden the range of intermediaries through which it operates, the mandate agreement for the Cooperative Banks and Smaller Institutions instrument was signed in October 2016 (CBSI, see Chapter 3 – Institutional mandates).

Under this mandate, EIF is now able to provide senior loan financing to cooperative banks and other smaller financial institutions that do not have access to financing provided by the EIB. In turn, EIF's financial intermediaries are expected to increase lending to SMEs and small mid-caps.

The CBSI Instrument is intended to contribute to the sustainability and growth of approximately 3 000 enterprises across 8-9 different EU Member States. In the last months of 2016, EUR 76.5m were committed to 7 institutions in Germany, Italy, Lithuania, Malta and Romania. Furthermore, EIF has identified demand for around EUR 350m within the next 2-3 years, mobilising financing to SMEs in excess of EUR 1bn.

Beyond debt instruments, the EC and EIF launched the EaSI Capacity Building Investments initiative in December 2016, whereby EUR 16m has been earmarked for investments to develop the institutional capacity of microfinance and social finance providers.

Through this facility, EIF will provide seed financing to newly created intermediaries and funds/vehicles investing in such intermediaries, or intermediaries that have not yet reached a sustainability level and require risk capital to continue growing. Depending on the intermediaries' needs and projects, investments can be used for diverse purposes.

To reflect the evolution in the business model and EIF's strong engagement in this field, the former Microfinance team became the Inclusive Finance Division as of November 2016, thus expanding EIF's core microfinance activity to include the workforce integration objective of many social enterprises. It encompasses the widened scope of financial inclusion not only in relation to final recipients, but also to EIF intermediaries, such as the smaller institutions targeted through the EREM CBSI instrument.

To further enrich the financing spectrum in support of social entrepreneurship, the EC and EIF have also made available a series of new impact investing tools under the EFSI Equity instrument. These are covered in more detail in Chapter 4.1. – Equity activity.

CASE STUDY

Company
Oficina de Música de Aveiro (Portugal)

Type of business
Music school

EU-supported guarantee
EPMF

Oficina de Música de Aveiro

Bringing music closer to people

In the Portuguese city of Aveiro, José Rodrigues is mostly known to the locals as ZéTó. He is the owner of Oficina de Música de Aveiro (OMA), the local music school. His passion for music has accompanied him all his life.

Nearly three decades ago, ZéTó was a pupil in Aveiro's music conservatory, playing bass and both electric and traditional guitars. His teacher at the time, Fernando Valente, a renowned Portuguese composer and musician, founded OMA to make up for the lack of modern music tuition in Aveiro, apart from the classical education offered by the conservatory. This is how OMA became the first music school in the region to offer courses in jazz and pop rock.

From pupil to teacher and to pedagogical director, ZéTó built up his career at OMA. When Fernando Valente passed away, the school was put on sale. ZéTó found this a golden opportunity to pursue his vision and bought the school together with some friends: **"We wanted to give young people the chance not only to learn how to play an instrument, but to be able to become professionals and thrive in the music industry"**.

OMA was initially located in a basement but the demand for classes and the storage of music instruments increased over the years. In 2014, ZéTó sought financial support in order to expand the music school's capacity. Thanks to the Portuguese bank Millenium BCP, an EIF financial intermediary, he received an EU-supported microloan that helped him materialise his plans. OMA relocated into a bigger house in a quiet neighbourhood by the river, allowing students to get inspired and play music in more stimulating surroundings.

In addition to the renovation and expansion works, the microloan also helped ZéTó to hire teachers and buy new equipment. OMA currently employs 15 teachers and has about 150 regular students. In addition, the school has recently developed special classes for the seniors and people with disabilities.

OFICINA DE MÚSICA DE AVEIRO

www.oficinademusicadeaveiro.com

CASE STUDY

Company
At it Again! (Ireland)

Type of business
Book publishing

EU-supported guarantee
EaSI GFI

At it Again!

Bringing Irish literature to life

At it Again! is an Irish company that brings literature to life in a fresh and playful way. Founders Maite López and Niall Laverty allow you to take a literary adventure by exploring Irish writers, their stories and the places that inspired them. The books are targeted at adults, be they local book-lovers or visiting tourists looking for a memento from Ireland.

"We wanted to inspire people to love Dublin and stop fearing Ulysses. Our challenge was to take a big intimidating book and make it fun and accessible", explained Niall. Within three months, the first title was released. People loved the book so much that the couple was spurred on to tackle other Irish classics. Soon the 'Romping through Irish Literature' series was a reality.

The first step had been made, but without financial support, the business would not have been able to take on any new customers or large bulk orders, thus significantly slowing down growth. Maite and Niall turned to Microfinance Ireland, an EIF financial intermediary that offered them an EU-supported loan through the EaSI programme.

This support allowed Maite and Niall to scale-up production volumes. As a result, the business can now produce at a lower cost and comfortably fulfil any requests from retailers on larger orders. The books were slightly rebranded and among others, the paper quality was visibly improved to make the look and feel of products more professional.

The aspiration is that the ongoing demand will create enough work to hire two part-time employees in 2017. Maite will also work full-time on the project. Building on the success of their literature series, At It Again! plan to continue to grow by expanding their range of products to include tourist guide books featuring the same playful approach. They also hope to build on their growing customer base in the United States and the United Kingdom.

www.atitagain.ie

CHAPTER 5
NATIONAL AND REGIONAL MANDATES

EIF's co-operation with national and regional mandators represents an important part of our overall activities as we jointly seek to achieve key policy objectives and tackle strategic investment gaps. In 2016, EIF pioneered the use of ESIF funds as a major source of finance in newly launched initiatives. Combined with EFSI, these resources increased the impact for SMEs and enabled EIF to pilot new initiatives, including in agriculture.

The resources under the Joint European Resources for Micro to Medium Enterprises (JEREMIE) instrument have been fully absorbed while new business opportunities have emerged, offering complementarity between European Structural and Investment Funds (ESIF) and EFSI, and allowing EIF to bring added value to mandators and final beneficiaries through a more effective and efficient use of both sources of funding.

MORE THAN

€ 7.7 bn

TOTAL ASSETS

managed by EIF under national and regional mandates over the past decade

As further developed in Chapter 4.1.-Equity activity, EIF's national and regional activities also included the steady expansion of the European Angels Fund (EAF) initiative that supports business angels and other non-institutional investors.

DEPLOYING STRUCTURAL FUNDS TO THEIR FULLEST POTENTIAL

BLENDING DIFFERENT RESOURCES

12 new mandates

+ 2 follow-on mandates

signed by EIF in 2016

The SME Initiative is a joint EIB Group/European Commission (EC) financial instrument, which was launched to address the financial constraints faced by European SMEs as national economies slowly recover from the recent economic turmoil.

The programme combines different resources, including ESIF, the EU centralised budget under Horizon 2020 and/or COSME as well as the EIB Group's own funds. EIF manages and implements the SME Initiative within the EIB Group.

Two different instruments define the operational framework of the SME Initiative: an uncapped portfolio guarantee facility, by which financial intermediaries are covered against the credit risk of newly originated SME loans, leases and guarantees (Option I); and a securitisation instrument (Option II).

The first mandates under the SME Initiative were signed in Spain (October 2014) and in Malta (July 2015). During

2016, EIF received four new SME Initiative mandates with activities being extended to Bulgaria, Finland and Romania under the uncapped guarantee pillar; and to Italy under the securitisation component, entrusting in total close to EUR 1.25bn of Member States contributions – European Regional Development Fund (ERDF) resources and, if any, national co-financing – to EIF.

In Bulgaria, the SME Initiative was signed in March 2016 with a target fund size of EUR 102m that is expected to generate an overall portfolio of EUR 608m, to benefit around 3 000 local enterprises in the next two years. It follows the successful implementation of the JEREMIE initiative, which ensured access to finance in the form of debt and equity instruments to over 8 000 SMEs.

In Finland, the funding agreement between the EIB Group and the Government of Finland was concluded in September 2016, entailing a contribution of EUR 40m of combined ESIF and national resources, foreseen to mobilise EUR 400m of new financing to around 2 000 SMEs in the country.

In Romania, the agreement launching the SME Initiative was signed in October 2016 with a contribution of EUR 100m from the country's ESIF and additional EIB Group resources, which are expected to create around EUR 540m of new financing for more than 2 500 Romanian SMEs. Similarly to Bulgaria, the launch of the SME Initiative builds on the experiences of deploying the JEREMIE mandate that supported 6 000 enterprises through debt financing and equity products.

In October 2016, Italy was the first country to adopt the SME Initiative's securitisation component and effectively blend different sources of financing provided by the Italian Government – including EUR 100m from ERDF and EUR 102.5m of own resources.

The SME Initiative in Italy leverages on additional funds from the COSME programme whilst the mandates in Bulgaria, Finland, Malta, Romania and Spain make use of Horizon 2020 resources. For further details on the implementation and signatures in the respective countries, see Chapter 4.2. – Guarantees and securitisation.

BOOSTING INVESTMENTS IN AGRICULTURE

Based on the positive experiences of implementing joint financial initiatives, the French region of Languedoc Roussillon decided to entrust part of its European Agricultural Fund for Rural Development (EAFRD), as well as additional own budget, to EIF with a view to developing financial instruments with a high added-value in the agriculture sector.

A first mandate in this regard, branded as FOSTER TPE-PME, is under implementation in Languedoc Roussillon, funded by the region's own resources and EAFRD. At the end of 2016, an operational agreement between EIF and Banque Populaire du Sud was signed to build up a portfolio of EUR 67.5m at better terms for final recipients active in the agriculture sector. In addition, EIF is in advanced negotiations with the French region of Midi-Pyrénées, and in Italy, with a number of regions that will each contribute to a joint multi-regional financial instrument.

EIF is working with the EC to develop a joint financial instrument benefitting from EFSI funding and EAFRD to increase the market impact of the support to the agriculture sector. The initiative, which was launched in co-operation with the EC Directorate-General for Agriculture and Rural Development (DG AGRI) and the EIB in November 2016 will start with pilot projects in several EU Member States. Building on EIF standard products, EIF expects to encourage a higher number of national and regional Managing Authorities to engage in the process of implementing financial instruments by dedicating an allocation of their EAFRD funds to a possible financial instrument with additional EFSI financing.

54 000

SMEs in agriculture
supported by EIF under different mandates since 2000

By including EFSI financing within the product design, EIF will be able to deliver more impactful products to the agricultural sector, where EIF has already acquired considerable experience and built up a relevant portfolio through other mandates including COSME guarantees and EREM microfinance agreements.

REGIONAL OUTREACH THROUGH FUND-OF-FUNDS

EIF has continued to forge, maintain and continuously expand alliances with key counterparts across EU Member States. New agreements have been established in Estonia, France, Greece, Poland, Romania and Sweden, and a strong delivery has been maintained under EIF's existing mandates in Germany, Luxembourg, the Netherlands and Turkey, as well as under multi-country mandates in the Baltics and the Western Balkans.

IN TOTAL

54

national and regional
mandates managed by EIF
at the end of 2016

EIF IN THE BALTICS

The Baltic Innovation Fund (BIF) was established in 2012 in partnership with three national development finance agencies in Estonia, Latvia and Lithuania. The EUR 100m fund targets the expansion of the Baltic venture capital and private equity market. EIF invested in five funds and mobilised around twice the amount of its own commitment by attracting additional resources from private investors.

A strong market response triggered a EUR 30m increase and extension of the BIF investment period until end-2017, enabling EIF to diversify its investments into additional funds of different size and vintage.

EIF's Annual Achievement Award for Private Equity and Venture Capital in the Baltics was awarded in 2016 to the Latvian, Lithuanian and Estonian Venture Capital & Private Equity Associations for their decision to join forces in establishing the Baltic Private Equity and Venture Capital Association, seeking to foster successful cross-border cooperation and develop an attractive and viable regional ecosystem for fund managers and investors.

EIF IN ESTONIA

EstFund is a new EUR 60m fund-of-funds initiative launched by EIF in close co-operation with KredEx and the Estonian Ministry of Economic Affairs and Communications in March 2016 to stimulate equity investments into innovative and high growth-focussed enterprises in Estonia. With EstFund, EIF has pioneered the combination of ESIF and EFSI resources.

By supporting smaller risk capital funds and targeting early stage investments, EstFund will be complementary to the already existing and successful Baltic Innovation Fund that focuses on investments into later stage companies in the Baltic region. EstFund is expected to make around EUR 100m of equity financing available for Estonian enterprises over the coming years. Following a call for expression of interest, 17 applications were received by the closing date in August 2016.

EIF IN GERMANY

EIF manages the European Recovery Programme (ERP) facility, which was mandated by the German Federal Ministry for Economic Affairs and Energy (BMWi) in 2004. Following several increases over time, we are currently managing EUR 3.2bn of total assets under this initiative.

These resources are dedicated to funding either German-based technology-focused SMEs in their early and expansion stages or international venture capital firms that are strongly focused on the German market. The co-investment growth pocket complements the range of other mandates – including a venture capital fund-of-funds and the EAF Germany instrument – under the umbrella of the joint ERP-EIF initiative.

This mandate was expanded in March 2016 to include the ERP-EIF Growth Co-Investment instrument focusing specifically on growth-stage technology companies. The new facility enables EIF to enlarge its range of products and to address an important market gap by providing additional resources for venture capital funds to finance the best performers in their portfolios. The ERP Growth Co-investment Facility has been rolled out as a pilot project and it is planned to be extended to other European countries in the framework of the NPI Equity Platform.

In early 2016, the EUR 150m LfA-EIF Facility offered carried interest thanks to positive developments in some of the 17 underlying funds and a number of successful exits. Investing in all technology areas (ICT, life sciences, energy, emerging and conversing technologies), the facility has pursued co-investments in promising business angels from Bavaria within the scope of the EAF Germany pilot programme.

In the framework of the ERP-EIF initiative, EIF committed EUR 477.6m in 8 venture capital funds and 10 business angels/non-institutional investors in 2016. One agreement was signed by combining EUR 36m of resources under the ERP Growth Co-investment Facility with EUR 5m from the LfA-EIF Facility.

Furthermore, EIF signed the extension of the Mezzanine Dachfonds für Deutschland mandate (MDD2) in November 2016 with a fund size of EUR 400m targeting hybrid debt/equity investments in Germany. A first investment was executed in 2016.

EIF IN GREECE

EquiFund, the first mandate using ESIF resources for an equity fund-of-funds in Greece was signed in December 2016. Blending structural funds with EFSI, the ESIF fund-of-funds initiative was launched with an initial size of EUR 260m that aims to boost entrepreneurship across three different windows: an innovation window (including technology transfer and accelerators), an early stage window and a growth window.

The initiative is drawing on ESIF resources from the country's Operational Programme for Competitiveness, Entrepreneurship and Innovation 2014-2020 and benefits in addition from EFSI. By attracting additional funding from institutional investors, EquiFund is expected to unlock substantial volumes of new equity financing for Greek SMEs at every stage of development.

EquiFund is among the largest and most ambitious ESIF fund-of-funds initiatives implemented by EIF, seeking to have a transformational and catalytic effect on the Greek venture capital market.

EIF IN THE NETHERLANDS

The Dutch Venture Initiative 2 (DVI-2) is a EUR 200m fund-of-funds launched in April 2016 by EIF and supported by the Dutch Ministry of Economic Affairs through the agency Participatiemaatschappij Oost Nederland. Drawing on the strategy of the successful predecessor fund DVI-1, this follow-on fund targets investments in ICT, clean-tech, med-tech, renewable energy and life sciences, through primary investments in Dutch-oriented venture capital funds.

In 2016, DVI-1 committed EUR 21.5m into two venture capital and growth capital investment funds. Under DVI-2, new signatures with two additional funds amounted to EUR 25.5m.

EIF IN POLAND

The agreement establishing a new ESIF fund-of-funds (FoF) initiative for a total amount of up to EUR 178m in Poland was signed between the EIB Group and the representatives of the region of Silesia in November 2016.

The Silesia FoF is the first joint EIF-EIB mandate blending ESIF resources, which was established under a common funding agreement, with each institution being responsible for implementing financial instruments under the different sub-windows comprised in the FoF's overall activity. In line with its expertise, EIF will implement the FoF's SME window for an amount of up to EUR 91m that will be disbursed to SMEs in the Silesia region through a risk-sharing facility and portfolio guarantees to financial intermediaries. The EIB will implement a parallel activity focused on urban regeneration, energy efficiency and social economy.

EIF IN ROMANIA

In addition to the rollout of the SME Initiative, the Competitiveness Fund-of-Funds for SMEs in Romania was also launched in September 2016, in close co-operation with the Romanian Ministry of European Funds. This mandate of EUR 59.3m with resources from the Competitiveness Operational Programme 2014-2020 is co-financed through funding from the country's European Regional Development Fund (ERDF).

Of the total available resources, EUR 40m are earmarked to support innovative enterprises through equity provided to accelerators and seed funds, and the remaining contribution is dedicated to a risk sharing instrument for loan portfolios. The calls for expression of interest were published in December 2016.

EIF IN SWEDEN

The Swedish Venture Initiative (SVI), a SEK 582m (approximately EUR 65m) fund-of-funds, was launched by EIF and the Swedish Agency for Economic and Regional Growth in April 2016 to support access to equity capital for Swedish early-stage high-growth enterprises.

Similarly to EstFund, the Swedish initiative is among the first fund-of-funds to combine ESIF resources with EFSI in order to effectively support first time or emerging venture capital funds focused on early stage investments. This is expected to generate SEK 1bn of equity financing for Swedish enterprises in the coming years.

EIF IN TURKEY

Following its launch in late 2015, the Turkish Growth and Innovation Fund (TGIF) reached its first closing at a size of EUR 200m in May 2016. Three investors – EIF, the SMEs Development Organisation of Turkey (KOSGEB) and the Turkish Treasury – each contributed EUR 60m alongside an investment of EUR 20m by the Development Bank of Turkey (TSKB).

In the first three months of operations, TGIF committed one-third of the available resources into three funds, including a regional fund of an established global fund manager; a fund managed by a former first-time team under the TGIF's predecessor initiative, the Istanbul Venture Initiative (iVCi); and a fund managed by a first-time team. The diversity of these investee funds reflects the conscious market development effort underlying EIF's engagement in the Turkish venture capital market.

At the same time, the iVCi's underlying portfolio has continued to grow, currently comprising 62 companies that were supported through equity investments since inception. Based on iVCi's strong performance, the initiative has been able to create financial returns for its investors.

The Technology Transfer Accelerator Fund (TTA Turkey) was launched in 2014 and is co-financed by the EU and Turkey's Ministry of Science, Industry and Technology (MoSIT) under the regional development component of the country's Instrument for Pre-Accession Assistance (IPA) funds. Diffusion Capital and ACT Venture Partners, the first two funds supported under TTA Turkey, invested altogether in 27 proof-of-concept projects, start-ups and early-stage enterprises.

The Greater Anatolia Guarantee Facility (GAGF) has been supporting SMEs in Turkey's emerging regions since late 2010. By the end of 2016, GAGF generated EUR 800m of new financing for more than 13 000 micro-enterprises and SMEs in some of the country's less developed regions.

EIF IN THE WESTERN BALKANS

The Western Balkans Enterprise Development and Innovation Facility (WB EDIF) is an EU-funded initiative which promotes the emergence and growth of innovative and high-potential companies, as well as the creation of a sustainable venture capital market in the region. It consists of four pillars: the Guarantee Facility (GF), the Enterprise Innovation Fund (ENIF), the Enterprise Expansion Fund (ENEF) and the Technical Assistance Facility. EIF manages the Guarantee Facility as well as invests into ENIF and ENEF (both with its own funding and on behalf of the EC).

At the end of 2016, EIF was nearing total absorption under the initial allocation of EUR 20m EU funding to six banks, and had finalised the additional five agreements with banks under a subsequent replenishment of the instrument. With these combined sets of EU funding, the GF instrument shall mobilise over EUR 200m of SME lending in the region.

2016 has also seen some important investments both under the ENIF and ENEF in support of seed and early stage enterprises (with a focus on ICT) and expansion stage enterprises respectively.

WB EDIF is an outstanding example of the fruitful cooperation between EIF, the EIB and the EC Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), also involving other important players in the Western Balkans region such as the European Bank for Reconstruction and Development (EBRD) and the KfW Bankengruppe in Germany, the World Bank, OECD, the Government of Italy, the Development Bank of Austria (OeEB) and others.

OTHER GLOBAL INITIATIVES

The Global Energy Efficiency and Renewable Energy Fund (GEEREF) is an innovative fund-of-funds which catalyses private sector capital into renewable energy and energy efficiency projects in Africa, Asia and Latin America. GEEREF was launched in 2006 by the EC and is advised by EIF.

EIF's expertise in the field of equity fund-of-funds and the EIB's knowledge of the region made them the ideal leaders of this initiative. GEEREF anchors private equity funds that invest in private sector projects which potentially accelerate the transfer, development, use and enforcement of environmentally sound technologies.

By the end of 2016, GEEREF committed EUR 178m in 13 funds in Africa, Eastern Europe (countries outside the EU), Central Asia, Latin America and the Caribbean, East and South Asia as well as the Pacific.

Through its involvement in GEEREF, EIF not only contributes to the global efforts for combating climate change but also ensures the dissemination of equity-related best practices in developing countries.

REGIONAL MANDATES

Amounts in EURm	PRODUCT	YEAR SIGNED	END OF COMMITMENT PERIOD	TOTAL NOMINAL RESOURCE	OF WHICH EIB GROUP / EC RESOURCES	TOTAL COMMITTED
ERP/Germany	Equity	2004	2020	1.680	840	1.660
LfA/Germany	Equity	2009	2019	150	75	108
MDD 2/Germany *	Equity	2016	2021	200	-	15
EAF/Multi-Country **	Equity	2012	2020	154	30	51
GEREEF	Equity	2007	2019	222	84	164
Western Balkan EDIF II	Guarantees	2015	2017	18	-	13
BIF/Baltics	Equity	2012	2017	130	52	80
TGIF/Turkey	Equity	2016	2021	200	60	54
DVI/Netherlands	Equity	2012	2018	203	68	193
DVI II/Netherlands	Equity	2016	2021	200	100	26
PGFF/Poland	Equity	2013	2018	90	30	47
SIA/Multi-Country	Equity	2013	2018	243	239	105
CYPEF/Cyprus	Guarantees	2014	2017	100	-	60
IPA/Turkey	Guarantees	2010	2017	61	-	54
	Equity	2014	2017	51	-	45
LFF/Multi-Country	Equity	2015	2020	150	30	22
SME Initiative/Multi-country	Guarantees	2015	2017	1.260	-	828
Structural Funds (ESIF)	Multi	2015	2023***	489	-	29

* Not including RCR in MDD2
** Only EAF Austria, Denmark, Ireland, Netherlands
*** Extension for structural funds. Legacy mandates up to 2025
**** End of the period for eligibility of expenditures made from ESIF

STRUCTURAL FUNDS - ESIF

Amounts in EURm	PRODUCT	YEAR SIGNED	END OF COMMITMENT PERIOD*	TOTAL NOMINAL RESOURCE	TOTAL COMMITTED
Estonia	Equity	2016	2023	48	-
Greece	Equity	2016	2023	200	-
Languedoc-R. EAFRD (F)	Guarantees	2015	2023	15	14
Languedoc-R. ERDF (F)	Multi	2015	2023	37	15
Romania	Multi	2016	2023	59	-
Silesia (PL)	Guarantees	2016	2023	89	-
Sweden	Equity	2016	2023	41	-
				489	29

* End of the period for eligibility of expenditures made from ESIF

STRUCTURAL FUNDS - SME INITIATIVE

Amounts in EURm	YEAR SIGNED	END OF COMMITMENT PERIOD*	TOTAL NOMINAL RESOURCE	TOTAL COMMITTED
Bulgaria	2016	2017	102	95
Finland	2016	2017	40	-
Italy	2016	2017	203	-
Malta	2015	2016	15	15
Romania	2016	2017	100	-
Spain	2015	2016	800	718
			1.260	828

CASE STUDY

Company
Walltopia (Bulgaria)

Type of business
Manufacturing (climbing walls)

EIF financing
JEREMIE Bulgaria

Walltopia

The world´s leading climbing wall manufacturer

Climbing was recently added to the official programme of the 2020 Olympic Games in Tokyo. The announcement by the International Olympic Committee in August 2016 came as a major leap forward in the development of this sport and a timely response to its rising popularity around the world.

Excellent news also for Walltopia, one of the world's foremost manufacturers of artificial climbing structures. Founded in 1998 in Bulgaria, the company operates on 6 continents through offices in the US, UK, Canada, Germany, Austria, Russia and Asia Pacific. To date, Walltopia has built more than1500 projects in 50 countries.

Walltopia offers different types of climbing walls with variations in design style, use (indoor or outdoor) and purpose (climbing gyms, school and universities, shopping centres, parks, hotels, recreational areas and many others). The company's services range from architecture and design to assembling, maintenance and inspection.

Walltopia employs the highest number of engineers, designers and full time technicians in the industry. Thanks to their in-house R&D department, Walltopia stays at the forefront of innovations and strives to combine the most up-to-date look with the latest available technology.

In 2012, Walltopia also launched a new product line for adventure parks including interactive climbing walls for children, as well as low and high rope courses and other obstacle courses that offer enjoyable and entertaining workout challenges.

BlackPeak Capital, a co-investment growth equity fund backed by EIF under the JEREMIE initiative in Bulgaria, saw an opportunity in supporting Walltopia's impressive growth and innovative products. The investment helped the company expand its portfolio of products and services, supporting the global roll-out of Funtopia, an amusement concept for indoor climbing for kids, which was previously launched successfully in Bulgaria, the US, Canada, and Israel.

"We were happy to share our passion for the product with investors who can drive value beyond money. As a rising eastern European company, we were pleased to see increased venture capital activity supporting innovation in Bulgaria", said Ivaylo Penchev, CEO of Walltopia.

www.walltopia.com

CASE STUDY

Company
Agrivi (Croatia)

Type of business
ICT in agriculture

EIF financing
WB ENIF and own resources

Agrivi

The most powerful farm management software

Hunger, food security and unsustainable agriculture represent some of the biggest global challenges. Driven by the recognition that the global food and agriculture system needs to change at its core, Matija Zulj decided to leave the corporate ICT world and focus on developing powerful farm management software that would revolutionise agricultural production.

First, Matija decided to become a farmer to understand what exactly it means to grow food. He started his own blueberry farm. Very soon he faced the same challenges as other farmers around the world: best practices in farming were difficult to access and there was no simple, yet affordable software on the market that could help him in making data-driven decisions.

His company, Agrivi was founded in 2013, when he decided to develop such software solutions himself, relying on a team of experienced agricultural experts and software engineers. By combining their agricultural knowledge and technology savviness, Agrivi built a comprehensive, knowledge-based management tool that allows farmers to plan, monitor and analyse all activities.

Tillage, planting, crop protection, fertilisation, irrigation, harvesting and all other activities are managed with a few clicks, which ultimately leads to improved productivity and allows for sharing information, including best practices and experiences with other farmers. The regular monitoring and data analyses functionalities also help to recognise and protect crops and yields from diseases in a timely manner, achieving a more sustainable and profitable agricultural production.

Agrivi was awarded the title of World's Best Startup in 2014. Southern Central Ventures, a fund supported by EIF, recognised the significant impact of Agrivi's visionary software development work and invested in the company from the early stages. The financing allowed Agrivi to accelerate its growth, both in terms of market outreach and by nearly doubling the staff base. Today, the company has more than 30 000 clients in 150 countries worldwide.

www.agrivi.com

CHAPTER 6
LATEST DEVELOPMENTS AND PLANS

Following years of growth, EIF's overall transaction volumes are expected to stabilise in 2017. EIF will remain firmly focused on the delivery of policy objectives, especially in the context of the Investment Plan for Europe. A continued strong deployment of EFSI through different equity, guarantee and securitisation instruments will involve an extended cooperation with NPIs. The planned increases of EIF's core guarantee mandates will enable us to secure real and sustainable impact for SMEs.

The current EUR 5.5bn resources under the EFSI SME Window are foreseen to be fully allocated by early 2017. Going forward, focus will be placed on the increases of existing mandates including COSME LGF, InnovFin SMEG and the EaSI Guarantee, as well as the EUR 2bn equity window targeting early and later stage companies through a variety of products.

The planned EFSI 2 SME Window is anticipated to have an additional budget of EUR 5bn where the EIB is expected to cover EUR 1.5bn through an RCR increase and the EC to provide EUR 3.5bn of new risk capacity for the ongoing development and implementation of equity and guarantee instruments by EIF.

This is expected to trigger a revised mobilised investment target of EUR 157.5bn to be achieved under the SME Window by 2020. EIF will therefore be in a position to deploy new instruments, one of which could be a sizeable new facility for securitisation and to further promote the use of financial instruments in new sectors (for example skills, energy and agriculture). Complementarity with European Structural Investment Funds (ESIF) will remain a priority for national and regional mandates.

To maximise the impact and outreach of its existing mandates, EIF's relationships with NPIs remain high on the agenda, further leveraging on the two recently launched platforms for private equity and securitisation activities and a greater cooperation in the field of loan funds and risk sharing guarantee products.

EIF will focus on the absorption of existing national and regional mandates and the launch of novel initiatives that capitalise on structural funds, combining them, where possible, with EFSI and/or EIB resources and thus ensuring complementarity among different sources of finance.

At the policy level, EIF's collaboration with the EC on key EU initiatives, including the Capital Markets Union and the Anti Tax Avoidance Directive, is of real importance. Moreover, and in co-operation with the EIB, EIF will assess the possibility of extending its activities to new sectors (for example agriculture, skills and energy) and of increasing its engagement in promoting social inclusion.

EIF will also seek new opportunities to source additional resources, in particular from the private sector and possibly sovereign wealth funds, in order to crowd-in further funds to support its mission. A clear focus will remain on developing the depth and breadth of impact assessment research studies, allowing the added value of EIF's activities in the market to be measured and demonstrated.

EQUITY

The core contributors to EIF's equity activity are expected to remain the RCR mandate, with a planned total increase of EUR 2.5 to 3bn, and the new EUR 2.068bn EFSI Equity instrument, targeting early and later stage companies through tech transfer, business angels and social impact as well as the pan-European FoF. The majority of eligible COSME EFG transactions will be originated through the EFSI equity window (see Chapter 3 – Institutional mandates).

The successful fund-of-fund model for national and cross-regional equity activities will be pursued with existing and new counterparts. After the first two transactions using ESIF (Estonia and Sweden), EIF will launch more ESIF partnerships with national and regional agencies.

GUARANTEES AND SECURITISATION

The first phase of EREM, which concluded at the end of 2016, was successfully implemented. A strong emphasis will be placed on EREM's continuation and, following on from the initially implemented windows, such as ABS, the newly created products for loan funds and smaller banks are facing strong demand.

The ENSI securitisation platform is expected to benefit from EFSI resources in order to support lower-rated tranches. The first EFSI-backed securitisation instrument under the SME Window is planned to be launched in 2017 and, in addition, activities will continue to centre on the deployment of the EREM ABS mandate and own resource transactions.

COSME LGF and InnovFin SMEG resources are likely to be almost doubled in the light of the persistently high market demand. Furthermore, the amendment of the InnovFin eligibility criteria will allow EIF to extend coverage to subordinated loans to SMEs. The resources under the EaSI programme will be increased by EUR 100m.

SME Initiative resources in the six countries where this financial instrument is currently implemented are foreseen to reach full allocation by the end of 2017. Discussions are underway with the EC on the implementation of a second phase of the SME Initiative.

INCLUSIVE FINANCE

In the second half of 2017, the EaSI product offering will benefit from at least one new pillar: a funded product succeeding the EPMF funded instrument and including potential contribution from EREM and EIF to provide senior and subordinated loans to financial intermediaries. The initial EUR 125m resources under the CBSI instrument are foreseen to be increased by EUR 350m in the course of 2017.

CHAPTER 7
EX-POST IMPACT ASSESSMENT RESEARCH STUDIES

EIF places a particular focus on the real effects of its support to the European SME sector. Against this background, EIF's Research and Market Analysis team started an impact assessment work stream, delivering so far four working papers and covering a significant share of EIF's policy toolbox (guarantees, microfinance and venture capital). Significant further work and output is in preparation.

THE ECONOMIC IMPACT OF EU GUARANTEES ON CREDIT TO SMES. EVIDENCE FROM CESEE COUNTRIES

Despite their policy relevance, credit guarantee schemes have seldom been subject to rigorous academic research. Using state-of-the art statistical techniques, the paper - as joint EC and EIF working study - analysed the possibilities of estimating the economic additionality of credit guarantee schemes.

The main results are summarised below:

- The beneficiaries of the Multi-Annual Programme for Enterprise and Entrepreneurship for Small and Medium-sized Enterprises (MAP) programme in Central Eastern and Southeastern European (CESEE) countries have experienced, on average a significant increase in employment in the order of 14-18 percent, compared to their counterfactuals.

- A similar result, albeit slightly less significant is related to a rise in turnover up to 19 percent within the first five years after signature date.

- MAP beneficiaries also face a temporary setback in productivity. Such gap was, however, partially absorbed over the medium run.

- The MAP effect on employment program is most noticeable for micro and small enterprises, and for young firms.

- The MAP has contributed the most where it was expected to: help small businesses with low credit score to access bank financing.

- There are differences across countries: some gain significantly, some not. However, none of the countries experiences significant negative results.

EVALUATING THE IMPACT OF EUROPEAN MICROFINANCE. THE FOUNDATIONS

As a detailed literature review and discussion of the various methodologies, this paper sets the framework for an approach for impact assessment in the field of microfinance. Even in developing countries where impact evaluation studies have been carried out for many years, there are still fierce debates on the efficiency and viability of microfinance.

This review identifies several reasons for this situation and advocates for the implementation of evaluation methods which manage to strike the right balance between meeting the stakeholders' needs, providing comparable results, being cost effective, taking into consideration various microfinance's settings and being able to adapt to microfinance sector's changes.

THE EUROPEAN VENTURE CAPITAL LANDSCAPE: AN EIF PERSPECTIVE

The current strand of work is focused on venture capital. It features a series of publications currently in the making, all based on EIF proprietary data. The first issue of the series – entitled **"The impact of EIF on the Venture Capital ecosystem"** - seeks to respond to the question whether EIF activity has effectively crowded-in VC financing, contributing to a sustainable European VC ecosystem.

Moreover, it offers an introductory perspective on 20 years of EIF VC activity, focusing on the geographic features of the EIF VC portfolio.

The main findings are as follows:

- In the 2007-2014 period, about 1 in every 18 euros invested in European start-ups was provided by EIF, reaching 1 in every 10 start-ups based in Europe.

- Such counter-cyclical investment policy produced a significant involvement of EIF in the broader VC ecosystem. A role that gives EIF an important position but - due to the catalysing effect - without being monopolistic.

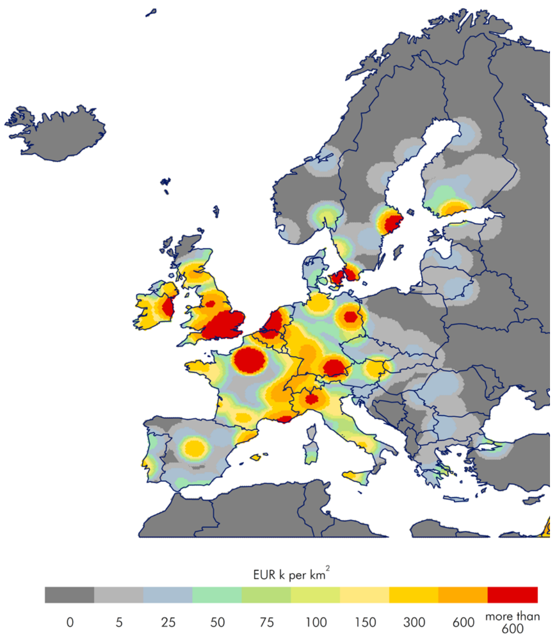
- By looking at the geographic concentration of EIF-backed companies, the analysis notices that key VC hubs originated 83 percent of all invested amounts. Of these, 63 percent is invested within national borders, while 37 percent is cross-border.

- While VC hubs constitute the backbone of the European VC activity, the study also notices that the range of EIF-backed investments has broadened over time, expanding more and more towards more peripheral areas.

- Teaming up with Invest Europe, VC investment levels across European regions (NUTS2) were compared in the 2007-2014 period. The results show that EIF had a positive significant crowding-in impact on European VC in the aftermath of the recent economic crisis: more capital flew into the market as a result of EIF activity.

- Specifically, it is estimated that a 1 percent increase in EIF activities caused a 1.41 percent increase in investment volumes of other market players the year thereafter.

- The crowding-in effect of EIF is stronger in areas with less developed VC markets, as signalled by the regional rate of tertiary educational attainment.



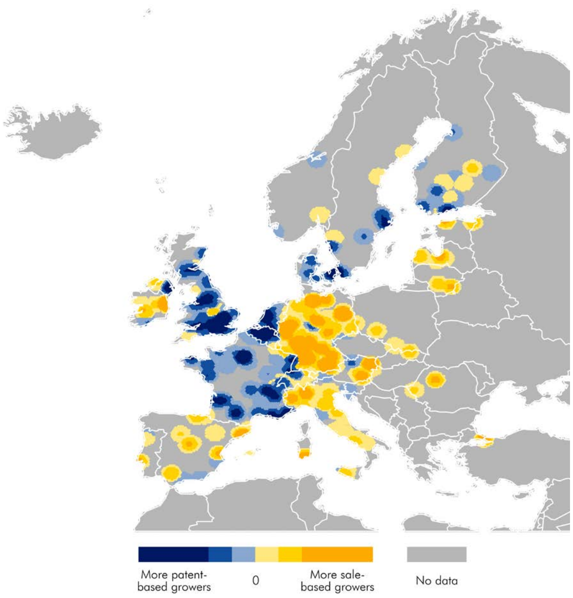
The second issue entitled **"Growth patterns of EIF-backed startups"** (December 2016) analyses the performance trends of investees after receiving EIF support, and identifies four main profiles of growth:

- Under-performers, representing almost 13 percent of the portfolio; moderate performers, constituting 55 percent of all investees; sale-based growers; and patent-based growers, representing respectively 12 percent and 20 percent of the portfolio.

- Sale-based growers achieve an explosive five-year growth driven by sales, while their investment valuation and patenting growth rates have lower levels. Patent-based growers show the highest patenting growth rates, as well as the highest valuation growth rate.

- Growth profiles tend to be persistent over time: in most cases, it is more likely that start-ups hold on to their profile than transition to another. If convergence towards a certain state is observed, then it typically leads to more moderate growth.

- The geographic distribution of out-performing start-ups hints at the presence of national and/or regional factors that may act as enablers of particular types of successful growth.



Furthermore, the average EIF-backed start-up experiences at least a twofold increase in its number of employees and total assets within four years after investment date, and within seven years from the investment date, most profitability indicators and ratios hint at positive trajectories. For instance, the proportion of firms with positive ROA grows from 10 to 35 percent.

Overall, the findings highlight the potential for EIF-backed VC start-ups to significantly contribute to economic development and job creation across several regions of Europe.

FORTHCOMING WORK

In 2017, new impact assessment studies are planned to cover the following topics:

- **Exits and IPOs:** This analysis will look into different measures of exit performance (exit type, buyers' profile, time to exit, and multiples at exit date) in order to assess the performance of EIF-backed VC investees. Overall results are further disaggregated by geographical region, sector and several company and investment characteristics.

- **EIF supported innovation:** In this macro-analysis, patenting trends of EIF-backed VC investees are tracked over time, including the analyses of patent types and clusters.

- Furthermore, in cooperation with Invest Europe, a study focusing on measuring the **impact of European venture capital** at investee level is underway. Its empirical approach entails looking at firms' development following a venture capital investment, providing tangible evidence on the role of European VC investments for the economic development of venture-backed companies.

CHAPTER 8

NEW OPERATIONS IN 2016 (AT 31.12.2016)

EQUITY SIGNATURES

DEAL NAME	RESOURCE	GEOGRAPHICAL FOCUS	COMMITMENT (IN EURm)	EFSI
Lower Mid Market				
Karmijn Kapitaal Fund II	DVI2	Netherlands	12,5	
Resilience Partners Fund	EREM Loan Funds/ Own funds	Multi country	30,0	
Muzinich Italian Private Debt Fund	EREM Loan Funds/ Own funds	Italy	40,0	
Muzinich Iberian Private Debt Fund	EREM Loan Funds/ Own funds	Spain	30,0	
Shard Credit Partners Fund I	EREM Loan Funds/ Own funds	United Kingdom	34,9	
Capzanine 4 Private Debt	EREM Loan Funds/ Own funds	France	50,0	
Krokus Nova Polonia III SCS	PGFF	Poland	13,5	
ARX CEE IV	RCR/COSME EFG/ Own funds	Multi country	30,0	
FINEXX Fund I GmbH & Co. KG	RCR/COSME EFG/ Own funds	Multi country	25,0	
Bright Capital SME Debt Fund I GmbH & Co. KG	RCR/MDD 2/ Own funds	Multi country	30,0	
Causeway Capital Fund I	RCR/Own funds	Multi country	20,0	
Beechbrook Private Debt Fund III	RCR/Own funds	Multi country	30,0	
Fondo Nazca IV	RCR/Own funds	Spain	50,0	
Growth Capital Partners IV	RCR/Own funds	United Kingdom	60,0	Yes
IK Small Cap Fund I	RCR/Own funds	Multi country	60,0	Yes
Kreos Capital V	RCR/Own funds	Multi country	60,0	Yes
Wisequity IV	RCR/Own funds	Italy	40,0	Yes
Realza Capital II	RCR/Own funds	Spain	60,0	Yes
NorthEdge Capital Fund II LP	RCR/Own funds	United Kingdom	28,9	Yes
Ardian Expansion Fund IV	RCR/Own funds	Multi country	50,0	Yes
Panoramic Growth Fund 2	RCR/Own funds	United Kingdom	23,1	Yes
Pinova Fund II	RCR/Own funds	Multi country	30,0	Yes
N+1 Private Equity Fund III	RCR/Own funds	Multi country	60,0	
21 Centrale Partners V	RCR/Own funds	France	60,0	
Nest Capital 2015 Fund Ky	RCR/Own funds	Multi country	40,0	Yes
CBPE Capital Fund IX	RCR/Own funds	United Kingdom	83,3	Yes
Cipio Capital Partners Fund VII	RCR/Own funds	Multi country	40,0	Yes
Inflexion Enterprise Fund IV	RCR/Own funds	United Kingdom	19,0	
Livingbridge 6	RCR/Own funds	Multi country	47,4	
Cabestan Capital 2	RCR/Own funds	France	25,0	
Ardian Expansion Fund IV EIF Parallel	RCR/Own funds	Multi country	30,0	
Capzanine 4 Sponsorless	RCR/Own funds	France	40,0	
CCL CEECAT Fund II	RCR/Own funds	Multi country	40,0	
EMZ 8 (ex Euromezzanine 8)	RCR/Own funds	France	60,0	
Vespa Capital II LP	RCR/Own funds	United Kingdom	36,0	
MBO Capital 4	RCR/Own funds	Multi country	30,0	
Mentha Capital Fund V	RCR/Own funds	Multi country	15,0	
Portobello Capital Fund III - Secondary Transaction	RCR/Own funds	Spain	11,0	
Taxim Capital Partners I LP	RCR/TGIF/Own funds	Turkey	30,0	
Mediterra Capital Partners II	RCR/TGIF/Own funds	Turkey	40,0	
Abraaj Turkey Fund I	TGIF	Turkey	17,8	
Resource Eastern European Equity Partners II	RCR/PGFF/Own funds	Multi country	40,0	
SUB-TOTAL (EXCL. CO-INV.)			**1.572,5**	

DEAL NAME	RESOURCE	GEOGRAPHICAL FOCUS	COMMITMENT (IN EURm)	EFSI
Co-investments				
HV Holtzbrinck Ventures Co-Investment Fund I GmbH & Co. KG	ERP/LfA/RCR/Own funds	Germany	41,0	
BaltCap Private Equity II Co-Investment Fund	RCR/Own funds	Multi country	10,0	
Atlantic Bridge II Side Car (Co-Investment)	RCR/Own funds	Multi country	10,0	
Co-investment with Capzanine III	RCR-MCIF/Own funds	France	4,7	
Co-investment with Oquendo Mezzanine II	RCR-MCIF/Own funds	Spain	7,5	
Co-investment with MML Capital Partners VI	RCR-MCIF/Own funds	France	7,5	
Co-investment with Growth Capital Partners IV	RCR-MCIF/Own funds	United Kingdom	4,9	
Lakestar II LP co-investment in Crosslend GmbH	LFF	Luxembourg	3,5	
SUB-TOTAL CO-INVESTMENTS			**89,2**	
SUB-TOTAL			**1.661,6**	
Venture Capital				
Keen Venture Partners Fund LP	DVI/COSME EFG/ Own funds	Multi country	30,0	
K Fund FCR	IFE	Spain	15,0	Yes
Frontline Ventures Fund II Limited Partnership	IFE	Multi country	10,0	Yes
Ysios BioFund II Innvierte	IFE	Multi country	20,0	Yes
Daphni Purple	IFE	Multi country	30,0	Yes
Sofinnova Industrial Biotechnology Fund	IFE	Multi country	30,0	Yes
Practica Seed Capital KUB	JEREMIE	Lithuania	2,0	
Standout Capital AB	RCR/COSME EFG/ Own funds	Multi country	32,8	Yes
DN Capital GVC Fund IV	RCR/ERP/Own funds	Multi country	60,0	Yes
Partech International Ventures VII	RCR/ERP/Own funds	Multi country	60,0	Yes
Cherry Ventures Fund II GmbH & Co. KG	RCR/ERP/Own funds	Germany	40,0	Yes
Atlantic Labs III GmbH & Co. KG	RCR/ERP/Own funds	Germany	20,0	
Gilde Healthcare IV	RCR/ERP/Own funds/ DVI2	Multi country	63,0	Yes
Rocket Internet Capital Partners SCS	RCR/ERP/Own funds	Multi country	120,0	Yes
Sunstone Technology Ventures Fund IV K/S	RCR/ERP/Own funds	Multi country	40,3	Yes
Seroba Life Sciences Fund III	RCR/Own funds	Multi country	40,0	
Kibo Ventures Innvierte Open Future, FCR	RCR/Own funds	Spain	25,0	
Anthemis Venture Fund I	RCR/Own funds	Multi country	27,3	
Creandum IV	RCR/Own funds	Multi country	35,0	Yes
EQT Ventures SCSp	RCR/Own funds	Multi country	120,0	Yes
Forbion Capital Fund III	RCR/Own funds	Multi country	10,0	Yes
Partech Growth	RCR/Own funds	Multi country	27,5	Yes
Atomico IV LP	RCR/Own funds	Multi country	114,0	Yes
Keensight Fund IV (ex. R Capital IV)	RCR/Own funds	Multi country	21,2	
SEP V LP (Scottish Equity Partners V)	RCR/Own funds	United Kingdom	62,0	Yes
Credo Stage 2 LP	RCR/Own funds	Multi country	15,0	
HealthCap VII	RCR/Own funds	Multi country	10,0	
Abingworth Bioventures VII LP	RCR/Own funds	Multi country	53,1	
Alven Capital V	RCR/Own funds	France	60,0	
Northzone VIII L.P.	RCR/Own funds	Multi country	25,0	
Notion Capital Opportunities LP	RCR/Own funds	United Kingdom	20,0	
SUB-TOTAL			**1.238,2**	
Tech transfer				
Launchub Fund Coöperatieve U.A.	JEREMIE	Bulgaria	15,0	
Black Peak Fund Coöperatief u.a.	JEREMIE	Multi country	15,0	
Empower Fund	JEREMIE	Bulgaria	5,0	
UCL Technology Fund	RCR/Own funds	United Kingdom	32,8	
Carduso Capital	RCR/Own funds	Netherlands	15,0	Yes
University Bridge Fund	RCR/Own funds	Ireland	30,0	Yes
CD3 III Centre for Drug Design and Discovery	RCR/Own funds	Multi country	30,0	Yes
GO Capital Amorçage II	RCR/Own funds/IFE	France	20,0	Yes
SUB-TOTAL			**162,8**	

DEAL NAME	RESOURCE	GEOGRAPHICAL FOCUS	COMMITMENT (IN EURm)	EFSI
Social Impact				
Coöperative Social Impact Ventures NL Fund I U.A.	SIA	Netherlands	15,0	
Impact Creation 1	SIA	France	10,0	
SUB-TOTAL			**25,0**	
Business angels (BAs)				
EAF Austria (5 BAs)	EAF	Austria	7,4	
EAF Germany (10 BAs)	ERP/LfA/RCR/ Own funds	Germany	33,3	
EAF Ireland (2 BAs)	EAF	Ireland	4,8	
EAF Netherlands (3 BAs)	EAF	Netherlands	11,0	
EAF Spain (5 BAs)	EAF	Spain	7,1	
SUB-TOTAL			**63,5**	
Fund of Funds				
Euro PE France Selection III	EFSI/Own funds	France	20,0	Yes
SUB-TOTAL			**20,0**	
TOTAL COMMITTED AMOUNT			**3.171,1**	
TOTAL LEVERAGED VOLUMES			**18.506,7**	

GUARANTEE SIGNATURES

DEAL NAME	RESOURCE	GEOGRAPHICAL FOCUS	COMMITMENT (IN EURm)	EFSI
CERSA	CCS GF	Spain	6,3	
Bpifrance	CCS GF	France	5,3	
Libra Internet Bank	CCS GF	Romania	1,2	
BdM-MCC - Fondo Centrale di Garanzia	COSME-LGF	Italy	27,5	Yes
CERSA - COSME LGF	COSME-LGF	Spain	29,8	Yes
CMZRB	COSME-LGF	Czech Republic	12,7	Yes
Equa Bank	COSME-LGF	Czech Republic	3,3	Yes
Franfinance Location	COSME-LGF	France	6,3	Yes
Komercni Banka	COSME-LGF	Czech Republic	2,8	Yes
Marche-Piemonte Confidi Umbrella - Cogart CAN	COSME-LGF	Italy	2,6	Yes
Marche-Piemonte Confidi Umbrella - Confartigianato Fidi Piemonte	COSME-LGF	Italy	2,6	Yes
Marche-Piemonte Confidi Umbrella - Confidicoop	COSME-LGF	Italy	2,0	Yes
Marche-Piemonte Confidi Umbrella - Fidimpresa	COSME-LGF	Italy	5,2	Yes
Marche-Piemonte Confidi Umbrella - Mario Pierucci	COSME-LGF	Italy	1,2	Yes
Marche-Piemonte Confidi Umbrella - SRGM	COSME-LGF	Italy	2,0	Yes
PBZ	COSME-LGF	Croatia	1,2	Yes
AVHGA	COSME-LGF	Hungary	2,9	Yes
SIAGI	COSME-LGF	France	5,6	Yes
Baltics Leasing Umbrella - Swedbank EE	COSME-LGF	Estonia	0,5	Yes
Baltics Leasing Umbrella - Swedbank LV	COSME-LGF	Latvia	0,5	Yes
CSOB SK	COSME-LGF	Slovakia	6,0	Yes
Baltics Leasing Umbrella - Swedbank LT	COSME-LGF	Lithuania	0,5	Yes
Baltics Bank Umbrella - Swedbank EE	COSME-LGF	Estonia	0,8	Yes
Baltics Bank Umbrella - Swedbank LT	COSME-LGF	Lithuania	0,5	Yes
Baltics Bank Umbrella - Swedbank LV	COSME-LGF	Latvia	0,5	Yes
National Bank of Greece (NBG)	COSME-LGF	Greece	10,0	Yes
Vaekstfonden Agri	COSME-LGF	Denmark	2,4	Yes
SBCI	COSME-LGF	Ireland	6,0	Yes
BCC Lease	COSME-LGF	Italy	5,3	Yes
Finansbank AS	COSME-LGF	Turkey	8,4	

DEAL NAME	RESOURCE	GEOGRAPHICAL FOCUS	COMMITMENT (IN EURm)	EFSI
Nord e Centro Italia Confidi Umbrella - FidiToscana	COSME-LGF	Italy	1,0	Yes
Nord e Centro Italia Confidi Umbrella - Cooperfidi Italia	COSME-LGF	Italy	1,5	Yes
Nord e Centro Italia Confidi Umbrella - Neafidi	COSME-LGF	Italy	1,5	Yes
Nord e Centro Italia Confidi Umbrella - Artigiancredito Toscano	COSME-LGF	Italy	5,0	Yes
Eurobank	COSME-LGF	Greece	13,0	Yes
Nord e Centro Italia Confidi Umbrella - Artigianfidi Vicenza	COSME-LGF	Italy	5,0	Yes
BDB	COSME-LGF	Bulgaria	1,2	Yes
Nord e Centro Italia Confidi Umbrella - Italia Comfidi	COSME-LGF	Italy	4,0	Yes
Banca Intesa ad Beograd	COSME-LGF	Serbia	1,8	
Raiffeisen Bank Bulgaria	COSME-LGF	Bulgaria	4,0	Yes
Raiffeisen Leasing Bulgaria	COSME-LGF	Bulgaria	1,3	Yes
CDP EFSI Investment Platform	COSME-LGF	Italy	112,5	Yes
SOCAMA 2	COSME-LGF	France	35,0	Yes
BDB NGF	COSME-LGF	Bulgaria	1,2	Yes
Bank of Cyprus	CYPEF	Cyprus	30,0	
BPCE – Caisses d'Épargne	ERASMUS - GF	France	4,9	
Finansbank A.S.	ERASMUS - GF	Turkey	4,9	
Future Finance	ERASMUS - GF	Ireland	5,6	
University Luxembourg	ERASMUS - GF	Luxembourg	0,8	
Germany Synthetic 1	EREM-ABS	Germany	125,4	
German Synthetic 2	EREM-ABS	Germany	89,8	Yes
RBS Health Care	EREM-ABS	United Kingdom	43,8	
Austrian Synthetic	EREM-ABS/Own funds	Multi country	59,8	
SIENA PMI 2015	EREM-ABS/Own funds	Italy	240,0	
ACOFI PREDIREC Innovation 2020	EREM Loan Funds/ Own funds	France	30,0	
BNPP-AM SME and Mid-Cap Debt Fund	EREM Loan Funds/ Own funds	Multi country	60,0	
Robeco Bedrijfsleningen Fonds (BLF) [ex NLOF]	EREM Loan Funds/ Own funds	Netherlands	30,0	
Hermes Direct Lending Fund I	EREM Loan Funds/ Own funds	United Kingdom	71,3	
HI CrescItalia PMI Fund (Italy)	EREM Loan Funds/ Own funds	Italy	40,0	
Idinvest Lease Fund I	EREM Loan Funds/ Own funds	Multi country	70,0	
Banque Populaire du Sud	ESIF-Languedoc Roussillon ERDF	France	15,0	
Banque Populaire du Sud	ESIF-Languedoc Roussillon EAFRD	France	13,5	
Banca CRS	InnovFin SMEG	Italy	15,0	Yes
BANCO POPOLARE	InnovFin SMEG	Italy	150,0	Yes
Bank Leumi	InnovFin SMEG	Israël	45,8	
BCC Cambiano - Umbrella - Cambiano	InnovFin SMEG	Italy	15,0	Yes
BCC Cambiano - Umbrella - Castagneto	InnovFin SMEG	Italy	12,5	Yes
BCC Cambiano - Umbrella - Fornacette	InnovFin SMEG	Italy	12,5	Yes
BCC Cambiano - Umbrella - Viterbo	InnovFin SMEG	Italy	5,0	Yes
BP Bari	InnovFin SMEG	Italy	50,0	
BPCE-BP	InnovFin SMEG	France	150,0	Yes
CERSA	InnovFin SMEG	Spain	60,0	Yes
Commerzbank	InnovFin SMEG	Germany	100,0	Yes
CREVAL	InnovFin SMEG	Italy	75,0	Yes
DE-NPB-Umbrella_IB.SH	InnovFin SMEG	Germany	3,5	Yes
DE-NPB-Umbrella_IBB	InnovFin SMEG	Germany	3,5	Yes
DE-NPB-Umbrella_IFB.HH	InnovFin SMEG	Germany	3,5	Yes
DE-NPB-Umbrella_ILB	InnovFin SMEG	Germany	3,5	Yes
DE-NPB-Umbrella_ISB.RP	InnovFin SMEG	Germany	3,5	Yes
DE-NPB-Umbrella_NRW.BANK	InnovFin SMEG	Germany	10,5	Yes
DE-NPB-Umbrella_WIBank	InnovFin SMEG	Germany	10,5	Yes
KfW	InnovFin SMEG	Germany	125,0	Yes

Komercni Banka	InnovFin SMEG	Czech Republic	25,0	Yes
La Banque Postale	InnovFin SMEG	France	20,0	Yes
LfA	InnovFin SMEG	Germany	35,0	Yes
Norrlandsfonden	InnovFin SMEG	Sweden	9,7	Yes
Pohjola	InnovFin SMEG	Multi country	75,0	Yes
Raiffeisen Bank Bulgaria	InnovFin SMEG	Bulgaria	17,5	Yes
TSKB	InnovFin SMEG	Turkey	10,0	
RLPL	InnovFin SMEG	Poland	17,5	Yes
ProCredit Umbrella - Romania	InnovFin SMEG	Romania	20,0	Yes
ProCredit Umbrella - ProCredit Holding	InnovFin SMEG	Multi country	20,0	
ProCredit Umbrella - Moldova	InnovFin SMEG	Moldova	10,0	
ProCredit Umbrella - FYROM	InnovFin SMEG	Former Yugoslav Republic of Macedonia	5,0	
ProCredit Umbrella - Albania	InnovFin SMEG	Albania	10,0	
ProCredit Umbrella - Serbia	InnovFin SMEG	Serbia	20,0	
ProCredit Umbrella - Bulgaria & Greece	InnovFin SMEG	Multi country	30,0	Yes
ProCredit Umbrella - Bosnia and Herzegovina	InnovFin SMEG	Bosnia & Herzegovina	20,0	
Entrepreneur Venture	InnovFin SMEG	France	25,0	Yes
Svensk Exportkredit	InnovFin SMEG	Sweden	50,0	Yes
BBB	InnovFin SMEG	United Kingdom	14,6	Yes
HBOR	InnovFin SMEG	Croatia	10,0	Yes
ALMI	InnovFin SMEG	Sweden	65,1	Yes
BPCE-CE	InnovFin SMEG	France	50,0	Yes
Unicredit Umbrella - Croatia	InnovFin SMEG	Croatia	5,0	Yes
Alba Leasing	InnovFin SMEG	Italy	40,0	Yes
Unicredit Umbrella - Bulgaria	InnovFin SMEG	Bulgaria	7,5	Yes
Vaekstfonden Danmarks Gronne Investeringsfond	InnovFin SMEG	Denmark	22,8	Yes
Unicredit Umbrella - Leasing - Bosnia & Herzegovinia	InnovFin SMEG	Bosnia & Herzegovina	0,3	
Unicredit Umbrella - Banja Luka - Bosnia and Herzegovina	InnovFin SMEG	Bosnia & Herzegovina	2,5	
Unicredit Umbrella - Serbia	InnovFin SMEG	Serbia	15,0	
Unicredit Umbrella - Romania	InnovFin SMEG	Romania	5,0	Yes
ICCREA	InnovFin SMEG	Italy	50,0	Yes
Unicredit Umbrella - Czech Republic and Slovakia	InnovFin SMEG	Multi country	25,0	Yes
Unicredit Umbrella - Mostar - Bosnia & Herzegovinia	InnovFin SMEG	Bosnia & Herzegovina	2,3	
Unicredit Umbrella - Hungary	InnovFin SMEG	Hungary	7,5	Yes
Bpifrance financement start-up	InnovFin SMEG	France	40,0	Yes
Bpifrance financement PI FEI	InnovFin SMEG	France	160,0	Yes
Arion Bank	InnovFin SMEG	Iceland	10,0	
ProCredit Umbrella - Ukraine	InnovFin SMEG	Ukraine	25,0	
Banca Sella	InnovFin SMEG	Italy	40,0	Yes
Unicredit Bank Austria	InnovFin SMEG	Austria	100,0	Yes
Laboral Kutxa	InnovFin SMEG	Spain	50,0	Yes
Tenax	InnovFin SMEG	Italy	25,0	Yes
CIBANK Umbrella - Multi country umbrella	InnovFin SMEG	Multi country	7,5	Yes
CIBANK Umbrella - CSOB SK	InnovFin SMEG	Slovakia	17,5	Yes
Eurobank	InnovFin SMEG	Greece	50,0	Yes
Siauliu Bankas	InnovFin SMEG	Lithuania	5,0	Yes
ALTUM	InnovFin SMEG	Latvia	6,0	Yes
BGL BNP Paribas	InnovFin SMEG	Luxembourg	5,0	Yes
Cariparma Group	InnovFin SMEG	Italy	75,0	Yes
EKF Danmarks Eksportkredit	InnovFin SMEG	Denmark	67,0	Yes
CIBANK Umbrella - Cibank JSC	InnovFin SMEG	Bulgaria	7,5	Yes
APS Bank Malta	InnovFin SMEG	Malta	6,0	Yes
Inveready Venture Debt II	InnovFin SMEG	Spain	0,5	Yes
Mobiasbanca	InnovFin SMEG	Moldova	2,3	
BBB 2	InnovFin SMEG	United Kingdom	2,2	Yes
Montepio	InnovFin SMEG	Portugal	10,0	Yes
Unicredit Umbrella - UniCredit SpA	InnovFin SMEG	Multi country	10,0	Yes
Novo Banco 2	InnovFin SMEG	Portugal	20,0	Yes
RCB	InnovFin SMEG	Cyprus	5,0	Yes
VAKIFLAR BANKASI	IPA001 - GAGF	Turkey	4,5	

DEAL NAME	RESOURCE	GEOGRAPHICAL FOCUS	COMMITMENT (IN EURm)	EFSI
Procredit Romania	JER-002 ROMANIA	Romania	2,5	
RAIFFEISEN ROMANIA	JER-002 ROMANIA	Romania	7,5	
Tatra Bank	JER-005 SLOVAKIA	Slovakia	14,0	
Sberbank Slovensko	JER-005 SLOVAKIA	Slovakia	6,0	
Allianz Bank Bulgaria	JER-009 BULGARIA	Bulgaria	0,7	
ProCredit	JER-009 BULGARIA	Bulgaria	2,0	
LDF (British Business Bank)	Own funds	United Kingdom	33,0	
HHF (British Business Bank)	Own funds	United Kingdom	33,4	
Turkish DPR	Own funds	Turkey	73,9	
SBOLT	Own funds	United Kingdom	55,7	
Alba 8	Own funds	Italy	127,0	
ROOF Leasing Austria	Own funds	Austria	250,0	
Asset Advantage Warehouse Facility	Own funds	United Kingdom	49,3	
abc SME Lease Germany	Own funds	Germany	48,7	
ICCREA SME CART 2016	Own funds	Italy	65,0	
NBG Sinepia DAC	Own funds	Greece	35,0	
Lusitano SME NO. 3	Own funds	Portugal	260,0	
Bank of Valletta	SME Initiative - Malta	Malta	45,8	
Banif Malta	SME Initiative - Malta	Malta	4,6	
Banco Popular	SME Initiative - Spain	Spain	50,0	
Bankia 2	SME Initiative - Spain	Spain	150,0	
Bankia	SME Initiative - Spain	Spain	16,0	
Bankinter	SME Initiative - Spain	Spain	100,0	
La Caixa	SME Initiative - Spain	Spain	40,0	
Sabadell	SME Initiative - Spain	Spain	31,3	
Santander	SME Initiative - Spain	Spain	50,0	
Liberbank	SME Initiative - Spain	Spain	150,5	
BCE - Caja Rural de Benicarlo - Umbrella	SME Initiative - Spain	Spain	0,5	
BCE - Caixa de Credit del Enginyers - Umbrella	SME Initiative - Spain	Spain	5,0	
BCE - Caja Rural de Burgos - Umbrella	SME Initiative - Spain	Spain	4,9	
BCE - Caja Siete - Umbrella	SME Initiative - Spain	Spain	7,5	
BCE - Caja Rural de Extremadura - Umbrella	SME Initiative - Spain	Spain	6,0	
BCE - Caja Rural Central - Umbrella	SME Initiative - Spain	Spain	5,0	
BCE - Caja Rural Nuestra Senora de la Esperanza de Onda - Umbrella	SME Initiative - Spain	Spain	0,3	
BCE - Caja Rural de Zamora - Umbrella	SME Initiative - Spain	Spain	2,2	
BCE - Caja Rural de Teruel - Umbrella	SME Initiative - Spain	Spain	5,0	
BCE - Caja Rural de Jaén - Umbrella	SME Initiative - Spain	Spain	7,5	
BCE - Caixa Rural Galega - Umbrella	SME Initiative - Spain	Spain	3,0	
BCE - Caja Rural de Aragón - Umbrella	SME Initiative - Spain	Spain	12,0	
BCE - Caja Rural de Albacete - Umbrella	SME Initiative - Spain	Spain	4,5	
BCE - Caja Rural de Granada - Umbrella	SME Initiative - Spain	Spain	5,0	
BCE - Caja Rural de Navarra - Umbrella	SME Initiative - Spain	Spain	2,5	
BCE - Ruralnostra - Umbrella	SME Initiative - Spain	Spain	2,0	
BCE - Caixa Popular-Caixa Rural - Umbrella	SME Initiative - Spain	Spain	6,0	
BCE - Caja Rural de Soria - Umbrella	SME Initiative - Spain	Spain	10,0	
BCE - Banco Cooperativo Espanol - Umbrella	SME Initiative - Spain	Spain	9,5	
Sabadell 2	SME Initiative - Spain	Spain	110,0	
Santander 2	SME Initiative - Spain	Spain	145,0	
Ibercaja	SME Initiative - Spain	Spain	84,9	
Raiffeisen Bank	SME Initiative - Bulgaria	Bulgaria	42,0	
UBB	SME Initiative - Bulgaria	Bulgaria	39,0	
CIBANK	SME Initiative - Bulgaria	Bulgaria	30,0	
ProCredit Bulgaria	SME Initiative - Bulgaria	Bulgaria	84,8	
Unicredit Bulbank	SME Initiative - Bulgaria	Bulgaria	60,0	
DSK	SME Initiative - Bulgaria	Bulgaria	24,0	
Eurobank Bulgaria AD	SME Initiative - Bulgaria	Bulgaria	42,0	
Deutsche Leasing Bulgaria EAD	SME Initiative - Bulgaria	Bulgaria	3,0	
Societe Generale Expressbank	SME Initiative - Bulgaria	Bulgaria	10,0	
Piraeus Bank Bulgaria AD	SME Initiative - Bulgaria	Bulgaria	30,0	
CKB Montenegro	WB EDIF GF II	Montenegro	3,5	
ProCredit Bank Serbia	WB EDIF GF II	Serbia	3,5	

ProCredit Bank Kosovo	WB EDIF GF II	Kosovo	5,1	
Raiffeisen Bank Albania	WB EDIF GF II	Albania	3,0	
ProCredit Bank FYROM	WB EDIF GF II	Former Yugoslav Republic of Macedonia	1,0	
TOTAL COMMITTED AMOUNT			**6.153,0**	
TOTAL LEVERAGED VOLUMES			**23.587,3**	

MICROFINANCE SIGNATURES

DEAL NAME	RESOURCE	GEOGRAPHICAL FOCUS	COMMITMENT (IN EURm)	EFSI
Komercni Banka (MF)	EaSI GFI	Czech Republic	1,2	
ALMI (MF)	EaSI GFI	Sweden	5,4	
LHV (MF)	EaSI GFI	Estonia	0,8	
Libra Internet Bank (MF)	EaSI GFI	Romania	1,3	
Key Fund (SE)	EaSI GFI	United Kingdom	0,6	
BESA (MF)	EaSI GFI	Albania	0,7	
Ceska Sporitelna (MF)	EaSI GFI	Czech Republic	1,5	
Erste Bank (SE)	EaSI GFI	Austria	0,4	
TISE EaSI (SE)	EaSI GFI	Poland	0,8	
Cooperative Bank of Karditsa (MF)	EaSI GFI	Greece	0,5	
Erste Bank (MF)	EaSI GFI	Austria	0,5	
good.bee (MF)	EaSI GFI	Romania	1,1	
Colonya (MF)	EaSI GFI	Spain	0,9	
Colonya (SE)	EaSI GFI	Spain	0,7	
MicroStart SCRL (MF)	EaSI GFI	Belgium	2,1	
Pancretan Cooperative Bank (MF)	EaSI GFI	Greece	1,4	
Soria Futuro (SE)	EaSI GFI	Spain	0,2	
OTP Banka Slovensko (MF)	EaSI GFI	Slovakia	0,8	
Millenium bcp (MF)	EaSI GFI	Portugal	1,5	
Eurobank (MF)	EaSI GFI	Greece	0,1	
Slovene Enterprise Fund (MF)	EaSI GFI	Slovenia	1,7	
Raiffeisen Bank Czech Republic (MF)	EaSI GFI	Czech Republic	1,4	
Kreditgarantiföreningen Norr (KGF) (MF)	EaSI GFI	Sweden	0,3	
Credal (MF)	EaSI GFI	Belgium	0,6	
Erste Bank Novi Sad (MF)	EaSI GFI	Serbia	0,7	
Laboral Kutxa (SE)	EaSI GFI	Spain	2,8	
CKB Montenegro (MF)	EaSI GFI	Montenegro	0,4	
Initiative France (MF)	EaSI GFI	France	0,5	Yes
Nest Bank (ex FM Bank) (MF)	EaSI GFI	Poland	1,2	Yes
Inicjatywa Mikro 3	EPMF	Poland	5,0	
Millennium bcp II	EPMF	Portugal	5,0	
Libra Bank	EPMF	Romania	2,3	
AKF	EREM-CBSI	Germany	12,5	
APS Bank Malta	EREM-CBSI	Malta	12,5	
FinMolise	EREM-CBSI	Italy	7,5	
Patria Bank (former NexteBank)	EREM-CBSI	Romania	10,0	
Siauliu Bankas AB	EREM-CBSI	Lithuania	12,5	
Banco delle Tre Venezie	EREM-CBSI	Italy	11,5	
Agricover Credit IFN	EREM-CBSI	Romania	10,0	
TOTAL COMMITTED AMOUNT			**121,0**	
TOTAL LEVERAGED VOLUMES			**580,3**	

CHAPTER 9
GOVERNANCE

9.1. CAPITAL AND SHAREHOLDERS (AT 31.12.2016)

EIF has an authorised capital of EUR 4 500m, divided into 4 500 shares of EUR 1m each, of which 4 382 have been issued as at end of 2016. On 31 December 2016 the European Investment Bank (EIB) held 59.9% of the issued shares, the European Union represented by the European Commission (EC) held 28.1% and 30 banks and financial institutions held 12.0%.

COUNTRY	FINANCIAL INSTITUTIONS	N°. OF SHARES
Austria		**18**
	Austria Wirtschaftsservice Gesellschaft mbH (aws)	1
	Erste Group Bank AG	5
	Raiffeisen Bank International AG	7
	UniCredit Bank Austria AG	5
Bulgaria		**3**
	Bulgarian Development Bank A.D.	3
Croatia		**8**
	Croatian Bank for Reconstruction and Development (HBOR)	8
Denmark		**5**
	Vækstfonden	5
France		**107**
	BPCE	5
	Bpifrance Participations	102
Germany		**151**
	KfW Bankengruppe	102
	Landeskreditbank Baden-Württemberg - Förderbank (L-Bank)	8
	LfA Förderbank Bayern	11
	NRW.BANK	20
	Sächsische Aufbaubank - Förderbank (SAB)	10
Hungary		**5**
	Hungarian Development Bank Ltd (MFB)	5
Italy		**85**
	Cassa Depositi e Prestiti S.p.A. (CDP)	50
	Intesa Sanpaolo S.p.A.	35
Luxembourg		**8**
	Banque et Caisse d'Epargne de l'Etat Luxembourg (BCEE)	8
Malta		**24**
	Bank of Valletta p.l.c.	24
Poland		**5**
	Bank Gospodarstwa Krajowego (BGK)	5
Portugal		**14**
	Banco BPI S.A.	14
Slovenia		**15**
	SID banka, d.d., Ljubljana	15
Spain		**57**
	Agencia de Innovación y Desarrollo de Andalucía (IDEA)	4
	Banco Santander	20
	Instituto de Crédito Oficial (ICO)	30
	Nuevo MicroBank, S.A.U.	3
Turkey		**11**
	Industrial Development Bank of Turkey (TSKB)	8
	Technology Development Foundation of Turkey (TTGV)	3
United Kingdom		**10**
	Barclays Bank PLC	5
	Scottish Enterprise	5
TOTAL		**526**

EIF was pleased to welcome two new financial institutions as members:

- BPCE of France acquired five shares, effective 26 January 2016.

- Technology Development Foundation of Turkey (Türkiye Teknoloji Geliştirme Vakfı – TTGV) purchased three shares, effective 15 April 2016.

In addition to its already existing subscription of 1136 shares, and in the context of the third annual subscription period of the capital increase, the EC acquired 96 additional shares, effective 15 July 2016.

THE GOVERNANCE OF THE EUROPEAN INVESTMENT FUND

EIF's institutional organisation and strong corporate governance are central to the successful delivery of its objectives. Its tripartite shareholding structure positions EIF uniquely among other EU and international financial institutions.

The brochure entitled "The Governance of the European Investment Fund" provides an overview of EIF's governing bodies as well as the decision-making processes regarding its activities.

www.eif.org/news_centre/publications/governance.htm?lang=-en

9.2. BOARD OF DIRECTORS (AT 31.12.2016)

CHAIRMAN

Dario SCANNAPIECO	Vice-President, European Investment Bank

MEMBERS

Benjamin ANGEL	Director, Treasury and Financial Operations, Directorate-General for Economic and Financial Affairs, European Commission
Pierre DELSAUX	Deputy Director-General, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, European Commission
Marc DESCHEEMAECKER	Chairman of the boards of Brussels Airport Company and of De Lijn, Belgium
Ambroise FAYOLLE	Vice-President, European Investment Bank
Emmanuel MASSÉ[1]	Assistant Secretary, Macroeconomic and European Affairs Department, Directorate-General of the Treasury, Ministry of Economy and Finance, France
Harriet WIRTH	Senior Vice President, Head of Product Management Mittelstandsbank, KfW Group, Germany

ALTERNATES[2]

Filipe CARTAXO	Managing Director, Banco BPI, Portugal
Martin HEIPERTZ	Head of Division European Policy, Federal Ministry of Finance, Germany
Jean-Christophe LALOUX	Director General, Head of Operations, European Investment Bank
Nicholas MARTYN	Deputy Director-General for Policy, Performance and Compliance, Directorate-General for Regional and Urban Policy, European Commission
Marjut SANTONI	Deputy Secretary General, European Investment Bank
Robert-Jan SMITS	Director-General, Directorate-General for Research and Innovation, European Commission

[1] Following his nomination by the European Investment Bank, Emmanuel MASSÉ was appointed by the General Meeting on 15 November 2016 to complete the remaining term of office of Karina KARAIVANOVA, who resigned on 15 September 2016, in connection with her resignation from the EIB's Board of Directors.

[2] Following the resignation of Carla DÍAZ ÁLVAREZ DE TOLEDO, former Head of EU Economic and Financial Affairs, Ministry for Economy and Competitiveness, Spain, on 21 September 2016, the nomination of an alternate member by the European Investment Bank is pending.

9.3. AUDIT BOARD

CHAIRMAN

Jacek DOMINIK[3]	General Counselor, Ministry of Finance, Poland

MEMBERS

Rudi DRIES[4]	Deputy Head of Unit IAS.C.3, Directorate-General Internal Audit Service, European Commission, Belgium
Paolo Enrico PERNICE[5]	Chief Financial Officer Intesa Sanpaolo Bank Luxembourg

ALTERNATE MEMBER

Gerard SMYTH	Former Secretary and Director of Audit, Office of the Comptroller and Auditor General, Ireland

3 Following his nomination by the European Investment Bank, Jacek DOMINIK was appointed by the General Meeting on 26 October 2015 to complete the remaining term of office of Bettina JAKOBSEN, following her resignation in May 2015, in connection with her appointment as Member of the European Court of Auditors (ECA).

4 Rudi DRIES was reappointed by the General Meeting on 20 April 2015 as a member of the Audit Board for a three-year term of office expiring on the day of the 2018 Annual General Meeting.

5 Following the nomination by the financial institutions, Paolo Enrico PERNICE was appointed by the General Meeting on 11 April 2016, to replace Charles BORG, whose term of office as Audit Board member came to an end on the same day.

9.4. BOARD OF DIRECTORS

Pierre Delsaux | Benjamin Angel | Marc Descheemaecker | Marjut Santoni | Dario Scannapieco
Harriet Wirth | Ambroise Fayolle | Filipe Cartaxo | Jean-Christophe Laloux | Emmanuel Massé

MANAGEMENT

Hubert Cottogni | Martine Lepert | José Grincho | Maria Leander | Roger Havenith
Pier Luigi Gilibert | Frédérique Schepens | John Holloway | Jobst Neuss | Alessandro Tappi

9.5. AUDIT AND CONTROLS

EIF is characterised by a multi-layered control environment embedded in the EU institutional framework and aligned with the financial sector's principles and best practices.

EIF's first layer of control is exercised through internal processes and procedures developed and implemented by the Executive Management by means of financial and operational controls designed to enable effective and efficient day-to-day operations, ensure reliable financial reporting and compliance with regulations and achieve EIF's objectives.

In this context, EIF's organisational chart sets out the competences, authorities and reporting lines within EIF, with a view to ensuring segregation of duties both on a horizontal level, through the interaction between front office and back office services, and on a vertical level through central control by the Board of Directors of the decision-making process in relation to all business activities.

The second layer of control consists of independent risk and compliance functions whose opinion is requested for each transaction proposed to the Board of Directors, as part of an integrated ex ante risk assessment and ex post risk monitoring under the responsibility of the Executive Management (see sections on Risk Management and Legal Service).

EIF regularly produces an Internal Control Framework (ICF) report, which in particular includes a risk control matrix outlining the main residual operational risks to which EIF is exposed. Through the ICF, the Executive Management is in a position to obtain the necessary comfort that the key risks related to EIF's business activities are properly identified, that control objectives are defined, that significant risks are mitigated and that the controls designed to achieve these objectives are in place and operating efficiently. The ICF forms the basis for the confirmation by the Chief Executive to the Audit Board that the main risks have been identified and mitigated.

The description of risks, control objectives and agreed improvements as described in the ICF is reviewed by Internal Audit, which, on the basis of the audits performed and the follow-up on agreed action plans, expresses an opinion on the effectiveness of EIF's internal control system, risk management and internal administration.

The third layer includes both internal and external audit, activities which are coordinated by the Audit Board. The Audit Board, as an oversight body, conducts its activity in accordance with the standards of the audit profession and relies on both internal and external audit assurances in order to confirm annually that, to the best of its knowledge and judgement, the operations of EIF have been carried out in compliance with the Statutes and the Rules of Procedure, and that the financial statements give a true and fair view of the financial position of EIF as regards its assets and liabilities, and of the results of its operations for the financial year under review. This information is included in the annual report submitted by the Board of Directors to EIF's Annual General Meeting.

In order to discharge its duty in relation to the financial statements, the Audit Board may have recourse to external auditors. The audit of the financial statements of the Fund for the year ending 31 December 2016 was carried out by the external auditor, KPMG. While performing the audit of the annual accounts, KPMG undertakes to maintain its independence in accordance with the Code of Professional Ethics adopted in Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF). KPMG performs its audits in accordance with the International Standards on Auditing (ISA) and is committed to inform EIF of any material weaknesses in the design or implementation of internal control over financial information that come to its attention during the audit of financial statements.

Internal Audit (which is outsourced to EIB Internal Audit) examines and evaluates the relevance, design and effectiveness of the internal control systems and procedures within EIF. To that end, a rolling three-year audit plan covering all key operational activities of EIF is implemented, on the basis of a risk-assessment methodology, in alignment with the ICF. The plan is discussed with the Executive Management and external auditor prior to submission for approval to the Audit Board. Internal Audit examines all EIF's activities in order to provide reasonable assurance to the Executive Management that EIF is operating properly and efficiently and reports on its findings by means of agreed action plans or recommendations to improve control and working procedures.

The Head of Internal Audit reports annually on the execution of the internal audit programme to the Executive Management, the Audit Board and the Chairman of the Board of Directors. Internal Audit adheres to the professional and ethical guidance issued by the Institute of Internal Auditors and the Information Systems Audit and Control Association, and is subject to a quality assurance and improvement programme that covers all aspects of the internal audit activity. Moreover, internal auditors shall comply with the internal policy statements governing their actions.

In addition to the maintenance of an internal control environment in line with the highest standards of the financial and banking sector, EIF is subject to periodical and sector-specific reviews by independent control bodies such as the European Court of Auditors (ECA), the Internal Audit Service of the European Commission and national or regional authorities entrusted with the task of monitoring the correct utilisation of funds under the relevant rules and within their respective remits.

9.6. RISK MANAGEMENT

EIF's mission is supported through a robust and coherent approach to risk management which seeks to ensure the highest quality standards for its operations and the best corporate rating from the major rating agencies.

Risk management is embedded in EIF's corporate culture and is based on the so-called "three-lines-of-defence" model, which permeates all areas of EIF's business functions and processes. These are: first line – front office; second line – independent risk management and compliance; and third line – internal and external audit.

Accordingly, in 2016 EIF continued to strengthen its Risk Management department in the three core areas of its activity, including operations risk, corporate risk and compliance.

This enhanced structure aims to address the rapid developments in the field of EIF's operations and at considering its specific business focus as well as its position as international financial institution, multilateral development bank and risk finance provider to European SMEs.

More specifically, it allows for a comprehensive view on risk management through a thorough assessment of financial and non-financial risks in a business environment where non-financial, in particular reputational, risk has gained significant importance and become more inter- linked with the risks related to the financial positions of the organisation.

COMPLIANCE

EIF's compliance risk assessment strives to protect the institution against risks which could have an adverse effect on its reputation. Under the terms of its Compliance Charter, the compliance team assesses - in line with best market practices and in line with the EIB Group's policy framework – the (i) institutional, (ii) transactional and (iii) conduct aspects of EIF's compliance risk.

Ensuring the independence of the compliance risk assessment, as a matter of best practice, is a key requirement for any financial institution. In EIF, the principle of independence is included in the EIF Compliance Charter and it materialises through the unrestricted direct access of the Head of Compliance to the Chief Executive, the Deputy Chief Executive, the Board of Directors and the Audit Board.

With the adoption of the OECD Action Plan on Base Erosion and Profit Shifting (BEPS) by the G20 in October 2015, and of various policy initiatives and actions launched at EU level, the fight against tax evasion and tax avoidance has become a prominent goal. EIF is committed to contribute to the efforts of the International Community in this regard and hence its compliance risk assessment of counterparty structures was enhanced. EIF reinforced its compliance risk control framework through additional controls focusing on the structure of the proposed operations.

CORPORATE AND OPERATIONS RISK MANAGEMENT

The Corporate Risk Management division dedicates its attention to overall corporate risks, including, in particular, operational risk, mandate risk management and treasury risk. It also takes care of EIF's obligations within the EIB Group's risk reporting and risks related to the principles of Corporate Social Responsibility (CSR).

The Operations Risk Management division assesses and monitors the financial risks related to all EIF operations. In this context, for each operation an independent risk opinion is issued, which evaluates and rates the financial risk of such operation and identifies risk mitigating factors. Financial and non-financial risks in EIF operations are subject to a risk surveillance process.

9.7. LEGAL SERVICE

EIF is supported by a strong in-house legal team whose remit, within its area of responsibility, is to pursue the strategic goals and protect and preserve the legal integrity of the Fund. This is achieved through the provision of legal advice based on the expertise and specialist knowledge of the team throughout the lifecycle of all EIF's transactional activities and in connection with institutional, strategic and policy-related matters, a dual objective which is reflected in the legal team's internal structure.

With regard to transactions, in order to address increasing business volumes and the strategic goal of achieving performance gains through specialisation, the transactions team is split into two divisions, one focused on debt transactions and the other on equity transactions.

The legal service's transaction teams work on all stages of transaction implementation, including (i) structuring and product development, (ii) review of proposals to the Investment and Risk Committee and EIF's Board of Directors, (iii) contractual negotiations and (iv) active portfolio management, in each case in close collaboration with other EIF services.

The legal service's proactive approach to identifying and preventing legal risk is a key element in the development and structuring of transactions of varying complexity, as well as in the conception of new products and mandates. Following the conclusion of contracts, Legal provides support in the post-signature management of the existing EIF portfolio. It is also active in maintaining an up-to-date view of the EU legislation that is relevant across the scope of EIF's activities.

In terms of institutional and corporate matters, the legal service supports the implementation of good corporate governance, coordinates and advises on contractual arrangements at institutional level. The legal service aims to ensure that EIF conducts its activities in accordance with its Statutes, mission and values, applicable law and relevant contractual obligations. It further aims to ensure a smooth functioning of EIF's corporate bodies, under the coordination of the EIF's Secretary General. As a European Union body, a member of the EIB Group and a financial institution, institutional matters concerning EIF include a wide range of areas and at times necessitate cooperation with EIF's shareholders as well as specific and proactive attention to the development of EU policy, and legislative and governance frameworks.

In addition, the legal service is called upon to advise on numerous structuring, corporate, governance and regulatory matters relating to third party mandates, including external structures (funds-of-funds), for which EIF acts as manager and/or adviser. In order to create the necessary interface between EIF's institutional role, its mandate management activity and transaction delivery, the activities of the transactions and the corporate and institutional teams are closely coordinated with the aim of providing seamless advice and expertise across EIF's business.

CONTACTS AND REFERENCES

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EIF also has offices in Athens, Bratislava, Bucharest, Istanbul, Madrid, Rome, Sofia and Vilnius

Europe Direct is a service to help you find answers to your questions about the European Union
Freephone: 00 800 67 89 10 11

Additional information is also available on the internet: http://europa.eu

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EIF's 2016 figures related to SME outreach and employment including the estimated numbers on sustained jobs and employment are indicative only and are based on reports received from financial intermediaries between 30 September 2015 and 30 September 2016. EIF assumes no liability for the accuracy thereof.

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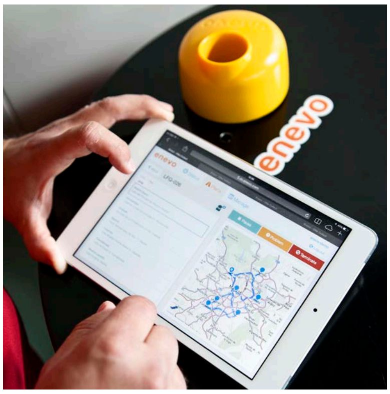
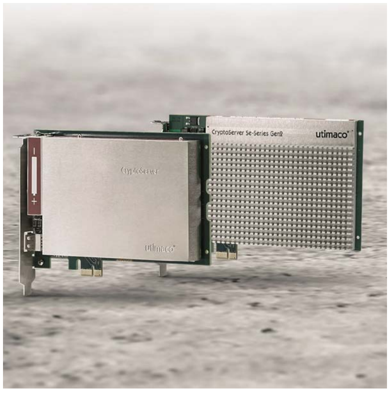
EUROPEAN
INVESTMENT
FUND

2016

FINANCIAL STATEMENTS



SUPPORTING SMART, SUSTAINABLE
AND INCLUSIVE GROWTH FOR SMEs



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INDEPENDENT AUDITOR'S REPORT

To the Audit Board of the European Investment Fund
37B, avenue J.F. Kennedy
L-2968 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Following our appointment by the Audit Board, we have audited the accompanying financial statements of the European Investment Fund (hereafter "the Fund"), which comprise the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 6 to 59.

MANAGEMENT RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the European Investment Fund as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

OTHER INFORMATION

The Management is responsible for the other information. The other information comprises the information included in the annual report and the statement by the Audit Board but does not include the financial statements and our report of Réviseur d'Entreprises agréé thereon.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Luxembourg, 8 March 2017
KPMG Luxembourg
Société Coopérative
Cabinet de révision agréé

M. Tabart

STATEMENT BY THE AUDIT BOARD

The Audit Board, set up pursuant to article 22 of the Statutes of the European Investment Fund ("EIF" or the "Fund"),

- acting in accordance with the customary standards of the audit profession,
- having designated KPMG Luxembourg, Société coopérative cabinet de révision agréé as external auditor of the EIF pursuant to Art. 19 of the Rules of Procedure,
- having studied the financial statements, which comprise the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 6 to 59 ("the Financial Statements") and such documents which it deemed necessary to examine in the discharge of its duties,
- having examined and discussed the report dated 8 March 2017 drawn up by KPMG Luxembourg, Société coopérative cabinet de révision agréé,
- noting that this report gives an unqualified opinion on the Financial Statements of EIF for the financial year ending 31 December 2016,
- having examined and discussed reports and opinions issued by EIF's Internal Audit, Risk Management and Compliance and Operational Risk functions,
- having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms that to the best of its knowledge and judgement,

- the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure;
- the Financial Statements give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 8 March 2017

THE AUDIT BOARD

Paolo Enrico Pernice	Jacek Dominik	Rudi Dries

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016 (EXPRESSED IN EUR)

ASSETS	NOTES	31.12.2016	31.12.2015
Cash and cash equivalents	4.1	218 121 040	227 289 731
Available-For-Sale portfolio:			
Debt securities and other fixed income securities	4.2	1 285 902 716	1 397 108 893
Shares and other variable income securities	4.3	386 875 259	345 730 480
		1 672 777 975	1 742 839 373
Loans and receivables	4.4	178 677 543	50 186 759
Non-current assets held for sale	7.5	0	4 458 328
Other assets	4.5	231 344 490	157 601 636
Intangible assets	4.6	49 911	194 835
Property and equipment	4.7	472 580	2 097
TOTAL ASSETS		**2 301 443 539**	**2 182 572 759**

LIABILITIES			
Financial liabilities			
Financial guarantees	5.1	16 302 264	13 954 718
Provisions for financial guarantees	5.2	28 809 133	81 571 994
Retirement benefit obligations	5.3	280 351 823	152 195 823
Other liabilities and provisions	5.4	97 378 011	80 591 476
TOTAL LIABILITIES		**422 841 231**	**328 314 011**

EQUITY			
Share capital	5.5		
Subscribed		4 382 000 000	4 286 000 000
Uncalled		(3 505 600 000)	(3 428 800 000)
		876 400 000	857 200 000
Share premium		411 457 574	389 670 117
Statutory reserve	5.6	245 371 298	206 427 382
Retained earnings	5.6	60 424 137	129 496 638
Fair value reserve	5.7	162 877 620	174 104 822
Profit for the financial year		122 071 679	97 359 789
TOTAL EQUITY		**1 878 602 308**	**1 854 258 748**
TOTAL EQUITY AND LIABILITIES		**2 301 443 539**	**2 182 572 759**

The notes on pages 10 to 59 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016 (EXPRESSED IN EUR)

	NOTES	31.12.2016	31.12.2015
Interest and similar income	7.1	25 612 606	25 648 769
Income from investments in shares and other variable income securities		23 248 430	13 164 054
Net gain from financial guarantee operations	7.2	46 694 622	49 560 750
Commission income	7.3	138 901 512	103 136 454
Net gain/(loss) on financial operations	7.4	1 841 171	9 474 214
Net result from financial instruments at fair value through profit or loss	4.3	116 123	2 743 378
Other operating income	7.5	3 254 832	437 378
General administrative expenses	7.6		
Staff costs:			
- wages and salaries		(47 012 680)	(38 269 174)
- social security and contribution costs		(34 235 959)	(29 828 904)
		(81 248 639)	**(68 098 078)**
Other administrative expenses		(31 070 022)	(25 321 728)
		(112 318 661)	**(93 419 806)**
Depreciation and amortisation	4.6, 4.7	(205 093)	(546 678)
Impairment losses on available-for-sale investments	4.3	(5 073 863)	(2 788 608)
Impairment losses on loans and receivables	4.4	0	(10 050 116)
PROFIT FOR THE FINANCIAL YEAR		**122 071 679**	**97 359 789**

Other comprehensive income			
- Net change in fair value of available-for-sale financial assets		(12 037 459)	25 909 772
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)		810 257	(11 488 726)
- Re-measurement of defined benefit obligation not reclassified subsequently to profit/(loss)		(103 148 832)	28 938 000
		(114 376 034)	43 359 046
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**7 695 645**	**140 718 835**

The notes on pages 10 to 59 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016 (EXPRESSED IN EUR)

ATTRIBUTABLE TO EQUITY HOLDERS OF THE FUND

		SUBSCRIBED CAPITAL	CALLABLE CAPITAL	SHARE CAPITAL	SHARE PREMIUM	STATUTORY RESERVE	RETAINED EARNINGS	FAIR VALUE RESERVE	PROFIT/(LOSS) FOR THE FINANCIAL YEAR	TOTAL EQUITY
BALANCE AS AT 31.12.2014		4 161 000 000	(3 328 800 000)	**832 200 000**	**364 695 201**	**172 679 724**	**71 023 304**	**159 683 776**	**84 369 144**	**1 684 651 149**
TOTAL COMPREHENSIVE INCOME										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	97 359 789	**97 359 789**
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	14 421 046	0	**14 421 046**
Re-measurement of defined benefit obligation	2.1.4, 5.3	0	0	0	0	0	28 938 000	0	0	**28 938 000**
TRANSACTIONS WITH OWNERS										
Appropriation of profit inc. dividend	5.6	0	0	0	0	33 747 658	29 535 334	0	(84 369 144)	**(21 086 152)**
Share issue	5.5	125 000 000	(100 000 000)	25 000 000	24 974 916	0	0	0	0	**49 974 916**
BALANCE AS AT 31.12.2015		4 286 000 000	(3 428 800 000)	**857 200 000**	**389 670 117**	**206 427 382**	**129 496 638**	**174 104 822**	**97 359 789**	**1 854 258 748**
TOTAL COMPREHENSIVE INCOME										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	122 071 679	**122 071 679**
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	(11 227 202)	0	**(11 227 202)**
Re-measurement of defined benefit obligation	2.1.4, 5.3	0	0	0	0	0	(103 148 832)	0	0	**(103 148 832)**
TRANSACTIONS WITH OWNERS										
Appropriation of profit inc. dividend	5.6	0	0	0	0	38 943 916	34 076 331	0	(97 359 789)	**(24 339 542)**
Share issue	5.5	96 000 000	(76 800 000)	19 200 000	21 787 457	0	0	0	0	**40 987 457**
BALANCE AS AT 31.12.2016		4 382 000 000	(3 505 600 000)	**876 400 000**	**411 457 574**	**245 371 298**	**60 424 137**	**162 877 620**	**122 071 679**	**1 878 602 308**

The notes on pages 10 to 59 are an integral part of these financial statements

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016 (IN EUR)

CASH FLOWS FROM OPERATING ACTIVITIES	NOTES	31.12.2016	31.12.2015
Profit for the financial year		122 071 679	97 359 789
Adjustments for:			
Depreciation and amortisation	4.6, 4.7	205 094	546 678
Net result from financial instruments at fair value through profit or loss	4.3	(116 123)	(2 743 378)
Net results from sale of non-current assets	7.5	(2 872 325)	0
Impairment loss on shares and other variable income securities	4.3	5 073 863	2 788 608
Interest income on debt securities and other fixed income securities	7.1	(19 732 148)	(21 613 721)
Impairment loss on loans and receivables	4.4	0	10 050 116
Interest income on loans and receivables	7.1	(1 416 987)	(295 466)
Change in financial guarantees	5.1	2 347 545	1 621 731
Net result on sale of shares and other variable income securities	7.4	0	(9 388 799)
Provision for financial guarantees	5.2	(16 771 995)	(28 766 934)
Provision for retirement benefit obligations		8 466 870	10 240 725
		97 255 473	59 799 349
Change in shares and other variable income securities	4.3	(58 942 051)	(7 566 483)
Financial guarantee calls paid	5.1, 5.2	(35 990 866)	(36 084 023)
Change in other assets and liabilities	4.5, 5.4	(40 416 021)	3 069 247
		(135 348 938)	(40 581 259)
Net cash from operating activities		(38 093 465)	19 218 090
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of debt securities and other fixed income securities	4.2	(17 758 851)	(91 959 338)
Proceeds from sale or matured debt securities and other fixed income securities	4.2	122 497 918	138 779 254
Interest received on debt securities and other fixed income securities		27 811 590	37 430 015
Acquisition of loans and receivables	4.4	(138 700 000)	(60 214 292)
Disposal of loans and receivables	4.4	10 267 199	0
Interest received on loans and receivables	4.4	1 359 003	246 175
Proceeds from sale of non-current assets	7.5	6 800 000	0
Acquisition of intangible assets and property and equipment	4.6, 4.7	0	(71 052)
Net cash from investing activities		12 276 859	24 210 762
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividend paid		(24 339 542)	(21 086 152)
Capital increase		40 987 457	49 974 916
Cash flows used in financing activities		16 647 915	28 888 764
Cash and cash equivalents at the beginning of the year		227 289 731	154 558 973
Effect of exchange rate fluctuations on cash and cash equivalents		0	413 142
Operating activities		(38 093 465)	19 218 090
Investing activities		12 276 859	24 210 762
Financing activities		16 647 915	28 888 764
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		218 121 040	227 289 731

The notes on pages 10 to 59 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL

The EUROPEAN INVESTMENT FUND (hereafter the "Fund" or "EIF") was incorporated on 14 June 1994, in Luxembourg, as an international financial institution. The address of its registered office is 37B, avenue J.F. Kennedy, L-2968 Luxembourg.

The task of the Fund shall be to contribute to the pursuit of the objectives of the European Union. The Fund shall pursue this task through activities consisting of:

- The provision of guarantees as well as of other comparable instruments for loans and other financial obligations in whatever form is legally permissible,

- The acquisition, holding, managing and disposal of participations in any enterprise subject to the conditions laid down in paragraph 2 (i) of Article 12 of EIF's Statutes ("the Statutes").

In addition, the Fund may engage in other activities connected with or resulting from these tasks as set out in Article 2 of the Statutes. The activities of the Fund may include borrowing operations.

The activities of the Fund shall be based on sound banking principles or other sound commercial principles and practices as applicable. Without prejudice to the provisions of Article 28, the said activities shall be pursued in close co-operation between the Fund and its founder members or between the Fund and its actual members at the relevant time, as the case may be.

The Fund operates as a partnership whose members are the European Investment Bank (hereafter the "EIB"), the European Union, represented by the European Commission (the "Commission"), and a group of financial institutions of Member States of the European Union and of a candidate country. The members of the Fund shall be liable for the obligations of the Fund only up to the amount of their share of the capital subscribed and not paid in.

The financial year of the Fund runs from 1 January to 31 December each year.

The EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated financial statements of the EIB Group. The consolidated financial statements are available at the registered office of the EIB at 98-100, boulevard Konrad Adenauer, L-2950 Luxembourg.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Basis of preparation

2.1.1 Statement of compliance

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), as endorsed by the European Union.

The Fund's financial statements have been authorised for issue by the Board of Directors on 8 March 2017.

2.1.2 Basis of measurement

The financial statements have been prepared on an historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets which are measured at fair value
- financial instruments held at fair value through profit or loss
- the defined benefit liability is recognised as the present value of expected future payments.
- Financial guarantees are measured at the higher of the amount initially recognised i.e. Net present value ("NPV") less, where appropriate cumulative amortisation and the provision amount in accordance with IAS 37.

2.1.3 Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment when applying the Fund's policies. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 2.3, 2.8 and 3.

Judgments and estimates are principally made in the following areas:

- Determination of fair value of equity investments as disclosed in note 2.3.2;
- Impairment of available-for-sale equity and debt investments, as disclosed in notes 2.3.1 and 2.3.2;
- Impairment of loans and receivables, as disclosed in note 2.4;
- Determination of provisions and liabilities for financial guarantees;
- Actuaries' assumptions related to the measurement of pension liabilities and post-retirement benefits as described in note 5.3;
- Determination of control over investees as described in note 2.3.4;
- Determination and disclosures of unconsolidated structured entities and investment entities in which the Fund has an interest as described in note 6.

In respect of unconsolidated structured entities and investment entities in which the Fund has an interest, further disclosures are described in note 6.

Regarding EIF's exposure to the United Kingdom, EIF is monitoring the developments of the political situation in the United Kingdom, specifically as regards the consequences of the referendum on the UK's continued EU membership held on 23 June 2016 and the approval by the UK House of Commons of a bill authorising the notification of the UK's decision to withdraw from the EU on 8 February 2017. In this context, it has been assessed that these events have not materially affected the financial position and performance of the Fund as at 31 December 2016. The Fund will continue to monitor the evolution of the situation and the possible impact on its financial statements as necessary.

2.1.4 Changes in accounting policies and presentation

The accounting policies adopted have been applied consistently with those used in the previous year.

2.1.5 Foreign currency translation

The Euro (EUR) is the functional and presentation currency. Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the profit or loss or within equity.

Non-monetary items are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a component of the change in their fair value. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Monetary items, which include all other assets and liabilities expressed in a currency other than EUR are reported using the closing exchange rate prevailing at the reporting date of the financial statements, as issued by the European Central Bank. Exchange differences are recognised in the profit or loss in the year in which they arise.

Income and charges in foreign currencies are translated into EUR at the exchange rate prevailing at the date of the transaction.

2.2 Cash and cash equivalents

Cash and cash equivalents comprise short term, highly liquid securities and interest-earnings deposits with short maturities of three months or less.

2.3 Available-For-Sale portfolio

2.3.1 Classification and Measurement

Classification

Except for investment in joint ventures (see note 2.3.4), the Fund classifies its investments in the Available-For-Sale category (hereafter "AFS"). The classification of the investments is determined at initial recognition.

Initial recognition and derecognition

Purchases and sales are initially recognised on trade date at fair value plus transaction costs. Fair value consideration is explained in the section below.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when EIF has substantially transferred all risks and rewards of ownership.

Subsequent measurement

The financial assets are subsequently measured at fair value, and any changes in fair value are directly recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss.

Impairment of financial assets

EIF assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss. For equity securities, a significant and/or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

Impairment losses on equity instruments previously recognised in the profit or loss are not reversed through the profit or loss. In contrast, if in a subsequent year, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit or loss.

2.3.2 Shares and other variable income securities

2.3.2.1 *Investments in private equity funds*

Investments in private equity funds are included in "Shares and other variable income securities". They are acquired for a long term in the normal course of the Fund's activities.

a) Fair value measurement:

Private equity (PE) investments are classified as "Available-for-Sale" and measured at fair value through equity and disclosed in accordance with the fair value hierarchy required by IFRS 13 as described in note 3.6. Given the nature of PE, market prices are often not readily available and in the absence of these, valuation techniques (level 3 according to the fair value hierarchy) are applied. For the valuation of PE the Fund further breaks down these valuation techniques into three categories as follows:

- Category A - funds that have adopted the fair value requirements of IAS 39 or International Private Equity and Venture Capital guidelines (IPEVC). The fair value is calculated by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAVs of underlying funds can be considered as equivalent to the fair value as determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39.
- Category B - funds that have adopted other valuation guidelines (such as the former 2001 European Venture Capital Association (EVCA) guidelines) or standards that can be considered as in line with IAS 39 from which an equivalent NAV can be calculated.
- Category C – funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines complying with IAS 39. These investments are valued at cost less impairment.

Although it is assumed for category A and B that the NAV is a reliable estimation of the fair value and a specific review is performed, it must be stated that underlying investments have been estimated in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation and current market conditions, actual results in the future could differ from the fund manager's estimate of values and the difference may be material to the financial statements.

The fair value is determined by applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report adjusted for cash flows or, where available, the precise share value at the same date, submitted by the respective fund manager. In order to bridge the interval between the last available NAV and the year-end reporting, a subsequent event review procedure is performed and if necessary the reported NAV is adjusted.

b) Impairment considerations:
Shares and other variable income securities are assessed for objective evidence of impairment. Impairment losses are only recognised if there is objective evidence of impairment as a result of one or more events that have occurred. On each official reporting date, EIF analyses unrealised losses so as to determine whether they should be recognised as impairment losses in the profit or loss or as changes in the fair value reserve.

In addition, EIF defines quantitative thresholds for assessing what is significant and what is prolonged which allows the classification of the funds as follows:

- funds with no indication of impairment;
- funds with an indication of potential impairment which are reviewed for impairment by the Investment and Risk Committee;
- funds showing objective evidence of impairment

For impaired investments in category C the amount of impairment is calculated based on a matrix of fixed impairment percentages in tranches of 25% depending on the operational and performance grading of the respective funds.

2.3.2.2 *Investments other than in private equity funds*

Investments other than in private equity funds classified in "Shares and other variable income securities" are composed of EIF's senior tranche exposure into the European Fund for Strategic Investments through the sub-window 2 of the equity platform.

a) Fair value measurement
Investments other than in private equity funds are classified as "Available-for-Sale" and measured at fair value through equity and disclosed in accordance with the fair value hierarchy required by IFRS 13 as described in note 3.6. Given the nature of EIF's senior tranche exposure, valuation technique (level 3) according to the fair value hierarchy" are applied. The fair value is composed of the net paid in representing the drawdonws paid net of any repayment and of the 2.5% of internal rate return expected on the underlying portfolio calculated in arear. At each reporting date, the internal rate return is reviewed and adjusted according to the performance of the underlying investments.

b) Impairment considerations
The sub window 2 of the equity platform shall be considered as securitisation transaction into which there is a junior risk taker and two senior risk takers. As such, impairment losses are only recognised if there is objective evidence of impairment as a result of one or more events that have occurred and if the junior tranche is fully impaired. On each official reporting date and considering the junior tranche, EIF analyses first unrealised losses at the level of the underlying investments with the approach of compensating such unrealised losses with unrealised gains so as to determine whether they should be recognised as impairment losses in the profit or loss.

2.3.3 Debt securities and other fixed income securities

Securities held by the Fund are mainly quoted on an active market. Consequently, the fair value of financial instruments is based on bid prices at the statement of financial position date.

Premiums paid over the maturity value and discounts received in comparison to the maturity value of securities are recognised in profit or loss over the expected life of the instrument through the use of the effective interest rate method.

2.3.4 Interests in joint ventures and associates

EIF complies with the conditions necessary to use the venture capital organisations and similar entities measurement exemption included in IFRS 11 and IAS 28 (11) and consequently decides not to use equity accounting in respect of any investments in joint ventures or associates: upon initial recognition, holdings in the joint ventures or associates are designated as at fair value through the profit or loss, and measured subsequently at fair value in accordance with IAS 39, with changes in fair value recognised in the profit or loss during the year of the change.

Joint ventures are contractual agreements whereby EIF and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control (the venturers). The shares acquired by EIF for its own account or on behalf of its mandate providers typically represent investments in private equity or venture capital funds. According to industry practice, such investments are generally investments subscribed to by a number of investors, none of whom is in a position to individually influence the daily operations and the investment activity of such funds. As a consequence, any membership by an investor in a governing body of such a fund does not, in principle, entitle said investor to influence the day-to-day operations of the fund. In addition, individual investors in a private equity or a venture capital fund do not determine policies of a fund such as distribution policies on capital repayments or other distributions. Such decisions are typically taken by the management of a fund on the basis of the shareholders' agreement governing the rights and obligations of the management and all shareholders of the fund. The shareholders' agreement also generally prevents individual investors from bilaterally executing material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information.

EIF's investments, made for its own account or on behalf of its mandate providers, are executed in line with the aforementioned industry practice. In addition, the Fund is exposed to variability of returns from these investments. Therefore, in considering whether it has control, the Fund considers whether it manages key decisions that most significantly affect these investments' returns. As a result and according to IFRS 10, the Fund has concluded that it does not control those vehicles.

2.4 Loans and receivables

Classification
These investments consist of Asset-backed Securities with SME loans in the underlying portfolios which take the form of notes issued by Special Purpose Vehicles (SPV) or financial institutions. They are classified in the "Loans and receivables" category (hereafter "L&R"). The classification is determined at initial recognition.

Initial recognition and derecognition
Purchases and sales are initially recognised on trade date at fair value plus transaction costs. Fair value corresponds to the consideration paid.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when EIF has substantially transferred all risks and rewards of ownership.

Subsequent measurement
The investments are subsequently measured at amortised cost, using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Impairment
EIF assesses at each statement of financial position date whether there is any objective evidence of impairment. Impairment losses are recognised only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through the profit or loss.

2.5 Financial guarantee operations

Financial guarantee contracts are contracts that require EIF to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the financial guarantees. At initial recognition the obligation to pay corresponds to the Net Present Value (NPV) of expected premium inflows. EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction

Subsequent to initial recognition, financial guarantees are measured at the higher of:

- the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets;or
- the amount initially recognised i.e. NPV less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a linear amortisation over the first two-thirds of the Weighted Average Life (WAL) of the transaction, followed by a linear amortisation down to a minimum floor calculated as a one-year expected loss. The transaction is totally amortised following full repayment of a securitisation tranche.

The best estimate of expenditure is determined in accordance with IAS 37. Financial guarantee provisions correspond to the cost of settling the obligation, which is the expected loss, estimated on the basis of all relevant factors and information existing at the statement of financial position date.

Any increase or decrease in the liability relating to financial guarantees other than the payment of guarantee calls is recognised in the profit or loss under "Net result from financial guarantee operations".

2.6 Other assets

Other assets include mainly the funds designated to cover the pension liability, accrued commission income and debtors and are accounted for at amortised cost.

2.7 Intangible assets, property and equipment

2.7.1 Intangible assets

Intangible assets are composed of internally generated software and purchased software, and are accounted for at cost net of accumulated amortisation and impairment losses.

Direct costs associated with the development of software are capitalised provided that these costs are separately identifiable, the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the year in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the date of the statement of financial position. Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Internally generated software:	3 years
Purchased software:	2 to 5 years

2.7.2 Property and equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Equipment is reviewed for indications of impairment at the date of the statement of financial position.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Fixtures and Fittings:	3 to 10 years
Office Equipment:	3 to 5 years
Computer Equipment and Vehicles:	3 years
Buildings:	30 years

2.7.3 Non-current assets held for sale

Non-current assets classified as held for sale include assets reclassified from investment property for which the sale is highly probable and the asset is available for immediate sale in its current condition. They are classified as held for sale as their carrying amount will be recovered through a sale transaction rather than through continuing use and are measured at the lower of carrying amount and fair value less costs to sell.

2.7.4 Impairment of non-financial assets

EIF assesses at each reporting date the carrying amounts of the non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If the carrying amount exceeds the estimated recoverable amount, impairment losses are recognised in the profit or loss.

2.8 Employee benefits

2.8.1 Post-employment benefits

Pension fund
EIF operates an unfunded pension plan of the defined benefit type, providing retirement benefits based on final salary. The cost of providing this benefit is calculated by the actuary using the projected unit credit cost method. The defined benefit liability is recognised as the present value of expected future payments.

Actuarial valuations involve making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long-term nature of this pension scheme, such estimates are subject to significant uncertainty.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are debited or credited to equity in other comprehensive income in the period in which they arise.

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is financed by contributions from staff and the Fund. These amounts are transferred to the EIB for management with the EIB's own assets and appear on the Fund's statement of financial position as an asset under the heading "Other assets".

The charge for the year, actuarial gains and losses, and the total defined benefit obligation are calculated annually by qualified external actuaries.

Optional supplementary provident scheme
The optional supplementary provident scheme is a defined contribution pension scheme, funded by voluntary staff contributions and employer contributions. It is accounted for on the basis of the contributions from staff and employer and the corresponding liability is recorded in "Other liabilities".

Health insurance scheme
The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contributions from the Fund and its employees. The entitlement is of a defined benefit type and is based on the employee remaining in service up to retirement age and on the completion of a minimum service period. The expected costs of this benefit are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Health insurance liabilities are determined based on actuarial calculations, performed annually by qualified external actuaries.

2.8.2 Short-term employee benefits

Employee entitlements to short-term benefits are recognised when they accrue to employees. A provision is made for the estimated liability for any outstanding short-term benefit entitlement as a result of services rendered by employees up to the date of the statement of financial position.

2.8.3 Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the year is included in the profit or loss under the heading "Staff costs", resulting in a provision for the estimated liability at the date of the statement of financial position.

2.9 Other liabilities and provisions

Other liabilities are classified according to the substance of the contractual arrangements entered into. Trade payables are non-interest bearing liabilities and are stated at amortised cost.

Provisions are recognised when the Fund has a present obligation, legal or constructive, as a result of a past event, and it is probable that the Fund will be required to settle that obligation.

2.10 Interest and similar income

Interest income and similar income is recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the purchase price including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.11 Income from investment in shares and other variable income securities

Income from investment in shares and other variable income securities includes capital dividends and repayments which are recognised when EIF's investment cost is fully reimbursed.

2.12 Net result from financial guarantee operations

Net result from financial guarantee operations includes:

- Guarantee premiums received;
- Interest income on the discounting of the expected premium inflows and any amortisation of the financial guarantees;
- Valuation changes triggered by ratings downgrades / upgrades;
- Changes in estimates of provisions for financial guarantees accounted for under IAS 37.

2.13 Commission income

This heading includes fees and commissions on mandates and advisory activities and excludes guarantee premiums.

Fees and commissions are recognised on an accrual basis when the service foreseen under an agreement has been provided. Portfolio and management advisory and service fees are recognised based on the applicable service contracts, usually on a pro-rata basis. Asset management fees related to investment funds are recognised over the period in which the service is provided.

2.14 Leases

The leases entered into by EIF as a lessee or a lessor, are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments or receipts made under operating leases are recognised in the profit or loss in other administrative expenses or other operating income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.15 New standards and interpretations not yet adopted

The following IFRS and IFRIC interpretations applicable to EIF were issued but are not yet effective. The Fund has chosen not to early adopt these standards and interpretations. The Fund plans to adopt them at the date of endorsement by the European Union.

- IFRS 9 – Financial instruments:
  This standard is the first step in a three-part project by the IASB to replace IAS 39 financial instruments. This first part, dealing with the classification and measurement of financial assets, simplifies the recognition of financial assets by requiring such assets to be measured at either amortised cost or fair value, depending on certain criteria. The standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

  The Fund is in the process of analysing the impact of this standard on its operations.

- IFRS 15 – Revenue from contracts with customers:
  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. This standard will replace existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 will be effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

  The Fund is in the process of analysing the impact of this standard on its operations.

3. FINANCIAL RISK MANAGEMENT

3.1 Introduction

This note presents information about the Fund's exposure to and its management and control of risks, specifically those associated with its financial instruments.

The following table provides information relating to the main financial assets and financial liabilities by categories of financial instruments for which the Fund is exposed to risks:

EUR

31.12.2016	LOANS AND RECEIVABLE	FAIR VALUE THROUGH PROFIT AND LOSS	AVAILABLE FOR SALE	FINANCIAL GUARANTEES	TOTAL
Cash and cash equivalents	218 121 040	0	0	0	218 121 040
Available-For-Sale portfolio:					
Debt securities and other fixed income securities	0	0	1 285 902 716	0	1 285 902 716
Shares and other variable income securities	0	6 300 335	380 574 924	0	386 875 259
Loans and receivables	178 677 543	0	0	0	178 677 543
Total Financial Assets	396 798 583	6 300 335	1 666 477 640	0	2 069 576 558
Financial liabilities					
Financial guarantees	0	0	0	16 302 264	16 302 264
TOTAL FINANCIAL LIABILITIES	0	0	0	16 302 264	16 302 264

EUR

31.12.2015	LOANS AND RECEIVABLE	FAIR VALUE THROUGH PROFIT AND LOSS	AVAILABLE FOR SALE	FINANCIAL GUARANTEES	TOTAL
Cash and cash equivalents	227 289 731	0	0	0	227 289 731
Available-For-Sale portfolio:					
Debt securities and other fixed income securities	0	0	1 397 108 893	0	1 397 108 893
Shares and other variable income securities	0	7 517 545	338 212 935	0	345 730 480
Loans and receivables	50 186 759	0	0	0	50 186 759
Total Financial Assets	277 476 490	7 517 545	1 735 321 828	0	2 020 315 863
Financial liabilities					
Financial guarantees	0	0	0	13 954 718	13 954 718
TOTAL FINANCIAL LIABILITIES	0	0	0	13 954 718	13 954 718

3.1.1 Types of risk

EIF is exposed to three primary categories of risk on its own resources, these are described in the following sections, first in general terms and then specifically by product line.

3.1.1.1 Credit risk
Credit risk is the risk that another party will cause a financial loss to EIF by failing to discharge an obligation. Credit risk concerns EIF's Guarantee and Securitisation ("G&S") activity, treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial paper, deposits and loans and receivables. There is a limited credit exposure for EIF Own Risk Private Equity ("PE") portfolio as investments in PE funds represent equity investments and related financing structures and are always made through an equity-like participation.

3.1.1.2 Liquidity risk
Liquidity risk is the risk that EIF will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

3.1.1.3 Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Market risk - Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

EIF may invest in financial instruments denominated in currencies other than its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the Euro (EUR).

The Fund's exchange rate risk is kept at a low level (below 6% of net assets) through a policy of limiting its investment in non-euro denominated instruments. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

The table below shows the currency exposure (in EUR) of EIF's financial assets and financial liabilities.

EUR

At 31.12.2016	EUR	POUND STERLING	US DOLLARS	OTHER CURRENCIES	SUB TOTAL EXCEPT EUR	TOTAL
Cash and cash equivalents	204 950 716	1 675 989	11 285 427	208 908	13 170 324	218 121 040
Available-For-Sale portfolio						
Debt securities and other fixed income securities	1 285 902 716	0	0	0	0	1 285 902 716
Shares and other variable income securities	283 131 216	62 311 067	12 677 998	28 754 978	103 744 043	386 875 259
Loans and receivables	178 677 543	0	0	0	0	178 677 543
Total assets	1 952 662 191	63 987 056	23 963 425	28 963 886	116 914 367	2 069 576 558
Financial liabilities						
Financial guarantees	12 588 565	2 129 327	0	1 584 372	3 713 699	16 302 264
Total liabilities	12 588 565	2 129 327	0	1 584 372	3 713 699	16 302 264
Foreign currencies in % of net assets		3.3%	1.3%	1.5%	6.0%	
Net commitments to private equity	494 039 296	96 999 407	41 521 097	23 729 805	162 250 309	656 289 605
Guarantees' exposure at risk	5 209 925 583	333 209 725	0	415 591 100	748 800 825	5 958 726 408
TOTAL OFF BALANCE SHEET	5 703 964 879	430 209 132	41 521 097	439 320 905	911 051 134	6 615 016 013

EUR

At 31.12.2015	EUR	POUND STERLING	US DOLLARS	OTHER CURRENCIES	SUB TOTAL EXCEPT EUR	TOTAL
Cash and cash equivalents	222 805 469	4 134 963	189 812	159 487	4 484 262	227 289 731
Available-For-Sale portfolio						
Debt securities and other fixed income securities	1 397 108 893	0	0	0	0	1 397 108 893
Shares and other variable income securities	242 429 995	67 351 930	8 560 670	27 387 885	103 300 485	345 730 480
Loans and receivables	50 186 758	0	0	1	1	50 186 759
Total assets	1 912 531 115	71 486 893	8 750 482	27 547 373	107 784 748	2 020 315 863
Financial liabilities						
Financial guarantees	8 774 022	4 267 741	0	912 955	5 180 696	13 954 718
Total liabilities	8 774 022	4 267 741	0	912 955	5 180 696	13 954 718
Foreign currencies in % of net assets		4.0%	0.5%	1.6%	6.1%	
Net commitments to private equity	387 445 806	99 747 452	14 741 226	24 778 650	139 267 328	526 713 134
Guarantees' exposure at risk	2 928 890 036	307 053 030	0	274 923 870	581 976 900	3 510 866 936
TOTAL OFF BALANCE SHEET	3 316 335 842	406 800 482	14 741 226	299 702 520	721 244 228	4 037 580 070

"Other assets" and "Other liabilities and provisions" are denominated in EUR (for more details please see note 4.5 and 5.4).

Market risk – Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Market risk – Interest rate risk factors specific to activities are disclosed in the respective sections below.

Market risk – Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market risk – Other price risk factors specific to activities are disclosed in the respective sections below.

3.2 Shares and other variable income securities

3.2.1 Risk management process

In the framework of EIF private equity business, the objective of risk management is to identify and measure the risk of its portfolio of PE assets, to monitor its evolution and consistency with EIF's objectives and to propose corrective actions in case of divergence.

Risk management is an integral part of the management of EIF's investment activities.

3.2.1.1 Portfolio design process

Designing a portfolio consistent with EIF's objectives and constraints is a key element of EIF's investment activity. No liquid secondary market exists for investments in private equity funds. Therefore only marginal changes to the portfolio composition can be implemented after the portfolio has been built. At this stage Equity Risk and

Portfolio Management division ("ERPM") ensures that the target portfolio is consistent with:

- The return objectives of EIF;
- The tolerance for risk of EIF;
- The liquidity needs of EIF.

3.2.1.2 Investment process

The investment process of EIF is led by the Equity Investments ("EI") department. ERPM is involved in the investment process from its early stages. Following an initial screening of investment opportunities, ERPM is called to express its opinion on EI's request to proceed with a full due diligence. Subsequently ERPM reviews all the investment proposals prepared by EI and issues an Independent Opinion to the Chief Executive and Deputy Chief Executive on the merit of the proposed investment. All investment decisions are submitted to the Board of Directors for final approval. Since 15 December 2014, investment decisions are taken by the Board of Directors or under delegation from the Board of Directors to the Chief Executive.

3.2.1.3 Monitoring process

Monitoring includes the valuation review of PE funds and the monitoring of the portfolio.

Valuation review

This process is divided into several stages to achieve what is known as Valuation Adjustment:

- Reporting: collection of financial reports sent by the fund managers as a basis for valuation (typically on a quarterly basis).
- Valuations: assessment as to whether valuations done by the fund managers are in line with best market practice and applicable industry valuation guidelines. The monitoring aims to determine in good faith the fair value of the investments.
- Impairments of investments: the Investment and Risk Committee ("IRC") decides on the impairment of transactions.
- Classification of funds: depending on the outcome of the monitoring outlined above, funds are classified into three categories as described in note 2.3.2.

Portfolio monitoring

Through portfolio monitoring ERPM assess the evolution of the portfolio composition relative to the return, risk and liquidity objectives of EIF. EIF has developed a set of tools to design, monitor and manage the portfolio of PE funds. This set of tools is based on an internal process and model, the Grading-based Economic Model ("GEM"), which allows EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This approach, supported by adequate Information Technology (IT) systems, improves the investment decision process and the management of the portfolio's financial risks.

The grades are defined as follows:

EXPECTED PERFORMANCE GRADE	
P - A	The fund's performance is expected to fall into the first quartile of the benchmark.
P - B	The fund's performance is expected to fall into the second quartile of the benchmark.
P - C	The fund's performance is expected to fall into the third quartile of the benchmark.
P - D	The fund's performance is expected to fall into the fourth quartile of the benchmark.

OPERATIONAL STATUS GRADE	
O - A	No adverse signals so far.
O - B	Some adverse signals, but not expected to have a material impact on the fund's valuation.
O - C	Adverse signals; without changes/improvements likely to lead to a material impact on the fund's valuation.
O - D	Critical events that had a material adverse impact on the fund's valuation.

3.2.2 Credit risk

Investments in PE funds represent equity investments and are always made through an equity-like participation. Even in the case where these are channelled through mezzanine loans, currently representing less than 1% of the portfolio, their risk profile is typically akin to an equity participation. Therefore the credit risk of EIF's Own Risk PE portfolio, defined as the portfolio of PE assets held on EIF balance sheet, is deemed not significant.

3.2.3 Liquidity risk

PE Funds are generally structured as Limited Partnerships, where the Limited Partners, such as EIF, commit a certain amount of capital to be called at the discretion of the fund manager, which is acting as General Partner. Such Limited Partnerships are generally structured as closed-end funds; therefore the discretion of the General Partner in deciding the timing of the capital calls is generally restricted by:

1. The contractual duration of the Limited Partnership, often being 10 to 12 years;
2. The investment period, often being defined as the first 5 years of the life of the Partnership. After the end of the investment period the General Partner cannot make new investments. Capital calls post investment period are generally made for follow-on investments in existing investee companies or to cover the fees and costs of the Limited Partnership.

Due to the discretion of General Partners in deciding the timing of the capital calls, the schedule of the future liquidity requirements of EIF's Own Risk PE portfolio cannot be precisely defined. However, as a result of the typical Limited Partnership structure described above, the majority of the capital is generally called during the investment period. Conversely, capital reflows resulting from the disposal of the investee companies generally take place after the investment period. Having a portfolio of investments in PE Funds which is well diversified across a wide range of vintage years, such as for EIF's Own Risk PE portfolio (see Chart 1), is an important component in the management of liquidity risk. Liquidity requirements resulting from capital calls of PE funds in the investment period can be matched by the stream of capital reflows generated by older PE funds in their divestment phase. The magnitude of this stream of reflows depends on the market conditions and the proportion of the portfolio that is in its divestment phase. It is also important to notice that, due to the inherent illiquid nature of the PE market, once a commitment has been signed it is difficult for a Limited Partner to sell its interest in a PE fund. Often the only way is by finding a buyer in the secondary market. This is usually only possible by offering to sell at a substantial discount to the fund's Net Asset Value ("NAV").

VINTAGE YEAR OF INVESTEE FUNDS IN PORTFOLIO

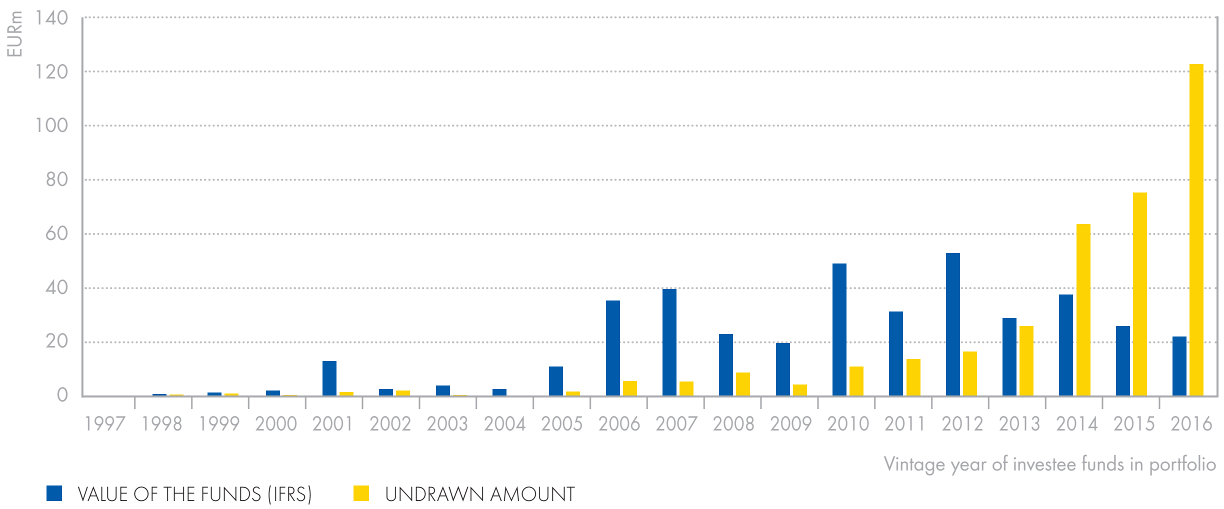


TABLE 1: UNDRAWN COMMITMENTS OF THE EIF OWN RISK PE PORTFOLIO; SPLIT BY TIME REMAINING TO THE END OF THE CONTRACTUAL LIFETIME* OF THE INVESTEE FUNDS

EUR

PRIVATE EQUITY	NOT MORE THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
As of 31.12.2016	1 927 250	2 227 050	19 103 227	377 389 487	400 647 014
As of 31.12.2015	3 077 671	815 510	16 558 759	243 413 322	263 865 262

* The duration of the contractual lifetime is generally 10 to 12 years starting from the inception of the fund. There is no obligation for a fund manager to call the full amount of capital committed by the investors.

TABLE 2: CAPITAL CALLS AND REFLOWS WHICH RESULTED FROM THE EIF OWN RISK PE PORTFOLIO

EURm

	CAPITAL CALLS	REFLOWS
2016	106.7	53.3
2015	65.7	80.1

Considering the expansion of the PE investment activity of the last few years, it is expected that the medium-term balance of capital calls and reflows will remain negative.

3.2.4 Market risk

The main types of market risk affecting EIF's PE portfolio are equity risk and foreign currency risk. Most funds in the portfolio make little or no use of leverage; therefore interest rate risk does not directly affect EIF's Own Risk PE portfolio.

3.2.4.1 Equity risk

Equity risk analysis requires an estimation of the sensitivity of the value of a stock towards a change in value in the overall market where this stock is traded. This can be done based on the Capital Asset Pricing Model. This model uses the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns of an asset against a public market index.

The specific characteristics of the PE asset class make it difficult to apply traditional approaches to equity risk analysis. While public market asset managers can use reliable statistical data to support their analysis, such data is lacking for PE and in particular for Venture Capital. The analysis of PE returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which is not fully representative of the market, and the inherent lower transparency of the PE market in general. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the Internal Rate of Return ("IRR"), the standard performance measure used for PE funds, is capital-weighted, while the performance measure of public market assets is traditionally time-weighted, it is not possible to analyse the correlation between PE and other asset classes without significant adjustments and therefore potentially large biases.

EIF uses a beta derived from the betas of three listed PE indices, LPX Europe Price Index, LPX Venture Price Index and LPX Buyout Price Index, to estimate the sensitivity of the valuation of EIF's PE investment to market prices. Regression has been carried out using the Dow Jones Euro Stoxx 50 over the last three years.

Using the most conservative beta from the three indices mentioned above and assuming market price movements of ±10%, the final sensitivity (i.e. beta x ±10%) is applied to the net asset value to give an adjusted net asset value, which is then compared to the net paid in. EIF's PE investment value would be impacted as follows:

PUBLIC MARKET RISK: ALL PRIVATE EQUITY

EUR

	+10% RETAINED BETA 0.9 FINAL SENSITIVITY: +9%			-10% RETAINED BETA 0.9 FINAL SENSITIVITY: -9%		
	Profit & loss account	Equity (Fair value reserve)	Total effect on equity	Profit & loss account	Equity (Fair value reserve)	Total effect on equity
31.12.2016	1 966 467	29 702 861	31 669 328	(4 976 168)	(26 723 160)	(31 699 328)

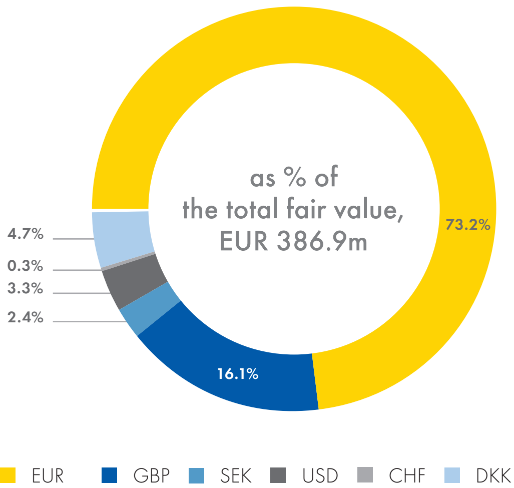
EUR

	+10% RETAINED BETA 0.7 FINAL SENSITIVITY: +7%			-10% RETAINED BETA 0.7 FINAL SENSITIVITY: -7%		
	Profit & loss account	Equity (Fair value reserve)	Total effect on equity	Profit & loss account	Equity (Fair value reserve)	Total effect on equity
31.12.2015	868 676	22 843 088	23 711 764	(3 950 856)	(19 760 908)	(23 711 764)

3.2.4.2 Foreign currency risk

The currency exposure of EIF's Own Risk PE portfolio, based on the currency denomination of the investee funds, can be broken down as follows:

FOREIGN CURRENCY RISK



For 2016, changes due to foreign exchange rates for shares and other variable income amount to EUR 6 460 904, of which EUR 6 455 463 has been posted to the fair value reserve (2015: respectively EUR 3 042 404 and EUR 2 866 159) and EUR 5 440 has been transferred to the Statement of comprehensive income following the recognition of impairment on the PE portfolio at year end (2015: EUR 176 245).

A sensitivity analysis is performed for all currencies representing more than 5% of the total exposure to assess the impact of currency movements. Only GBP falls into this category and the impact of an increase / decrease of 15% vs. the euro was simulated below:

FOREIGN EXCHANGE RATE RISK IN EUR

	GBP INCREASE OF 15% VS. EUR	GBP DECREASE OF 15% VS. EUR
	Impact in EUR	Impact in EUR
31.12.2016	9 346 660	(9 346 660)
31.12.2015	10 085 847	(10 085 847)

It should be noted however, that these impacts are measured at the fund level. They do not take into account indirect potential effects on the underlying portfolio companies' value which could have a different currency exposure than the fund (e.g.: a fund denominated in GBP might invest in a company based in Germany or deriving most of its income in EUR).

3.2.5 Idiosyncratic risks

Idiosyncratic or non-systematic risk is a risk unique to a certain asset. This is a type of risk that can typically be managed via portfolio diversification. In the case of EIF's Own Risk PE portfolio the main types of idiosyncratic risks identified are strategy risk, geographic risk, fund risk, sector risk and technology risk.

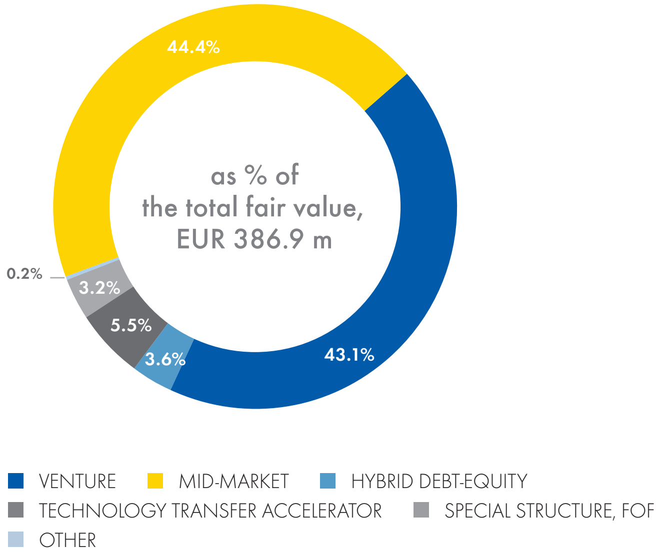
3.2.5.1 Strategy risk

Strategy risk is defined as the risk resulting from over/under weighting a specific investment strategy. The PE funds in EIF portfolio can be generally grouped into three main investment strategies:

- Technology Transfer Accelerator ("TTA"): such definition covers strategies targeting investments at seed and pre-seed stages directed at the commercialisation of new technologies developed by universities and research centres;
- Venture Capital: such definition covers strategies targeting venture capital investments ranging between the early and late stage;
- Lower Mid-Market: such definition covers strategies targeting equity and mezzanine investments at growth and buyout stages and targeting small- and medium-sized enterprises ("SMEs").

The three strategies follow different dynamics and involve different risk and return profiles. EIF portfolio currently has a balanced exposure to venture capital and lower mid-market funds, with a small exposure to TTA funds.

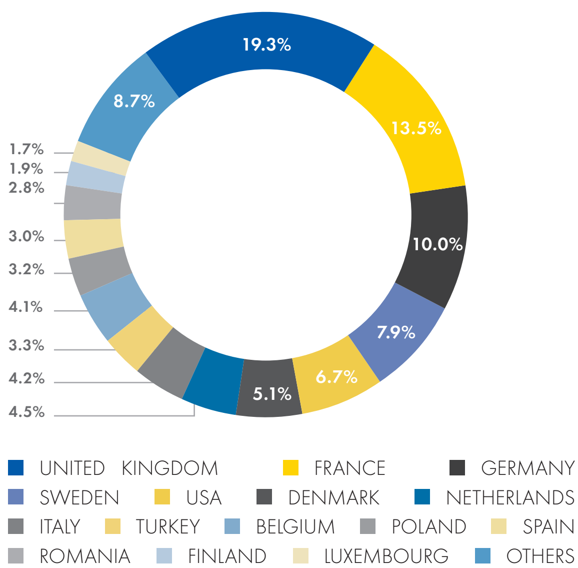
EIF OWN RISK PE PORTFOLIO:
FAIR VALUE SPLIT BY INVESTMENT STRATEGY



3.2.5.2 Geographic risk

Geographic risk is defined as the risk resulting from under/over weighting a specific country or region. The geographic scope of EIF's PE investment activity is currently focused on Europe, with limited outside exposure. The resulting geographic exposure of EIF's Own Risk PE portfolio is shown below:

EIF OWN RISK PE PORTFOLIO: SPLIT OF INVESTEE COMPANIES BY COUNTRY OF DOMICILIATION



3.2.5.3 Fund risk

Fund risk refers to the risk of over / under performance due to factors linked to a specific PE fund in a portfolio (e.g.: the departure of a key executive from the management team of a fund). As shown below EIF's Own Risk PE portfolio is well diversified across a large number of funds. The largest fund in EIF's portfolio represents 2.8% of the portfolio fair value (2015: 2.7%) and the largest 10 funds represent in aggregate 18.8% (2015: 19.4%).

3.2.5.4 Sector risk

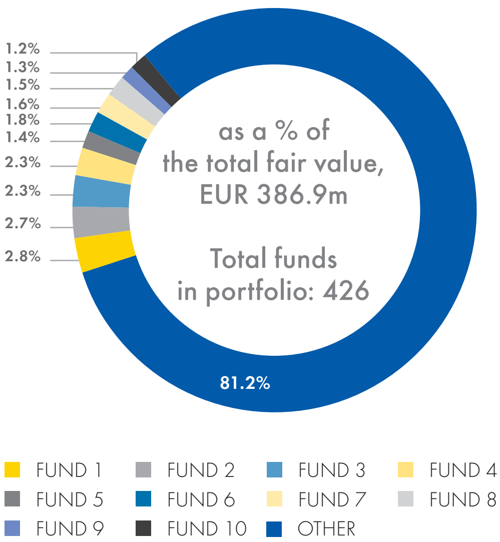
Sector risk is defined as the risk resulting from under/over weighting a specific sector. The largest sector exposure (excluding Generalist) of EIF Own Risk PE portfolio is to the information technology and life science sectors. Such exposure is by design and is the result of the portfolio allocation to Private Equity funds.

3.2.5.5 Technology risk

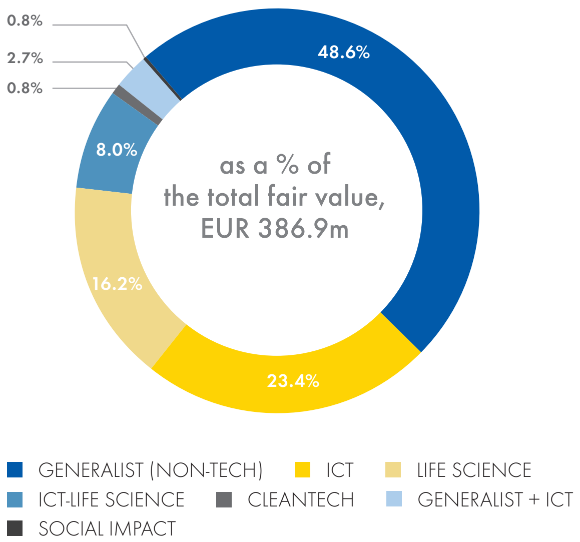
PE funds investing in Venture Capital and Technology Transfer are significantly affected by technology risk, defined as the risk of successfully developing and commercialising a new technology. The earlier the stage of investment is, the higher the technology risk is. Due to its often binary nature, technology risk is difficult to model but can be effectively managed through adequate diversification.

Regarding the technology risk; the fair value of the 10 largest technology investee companies (based on the last available report) amounted to EUR 39.5m (2015: 46.1m) and represented 10.2% of the fair value of EIF's portfolio (2015: 13.7%).

EIF OWN RISK PE PORTFOLIO:
LARGEST PE FUNDS IN PORTFOLIO



EIF OWN RISK PORTFOLIO:
FAIR VALUE SPLIT BY SECTOR FOCUS OF INVESTEE FUNDS



3.3 Portfolio Guarantees and Securitisation ("G&S")

3.3.1 Introduction

EIF has developed a set of tools for its G&S business to analyse and monitor portfolio guarantees and structured finance transactions in line with common market practices. The risk management activity can be split into two parts: an initial risk assessment and ongoing risk monitoring.

3.3.1.1 Initial risk assessment

In the context of the independent opinion process, the Operations Risk Management division ("ORM") reviews the investment proposal provided by the Guarantees, Securitisations and Microfinance ("GS&M") department in accordance with EIF's internal rules and procedures. This review includes a detailed analysis of the risks related to the new G&S transaction, the methodologies applied and EIF's internal rating initially proposed by GS&M. A transaction is only eligible if, at the time EIF enters into the transaction, the assigned internal rating is in the range of iAaa-iB2 (iAaa and iB2 are mapped to Moody's Aaa and B2, respectively).

EIF assigns an internal rating to each new transaction to estimate the credit quality based on an expected loss concept. EIF's internal rating is based on quantitative parameters and qualitative aspects. The following quantitative factors are examples of variables having an impact on the determination of EIF's internal rating: weighted average rating of the underlying portfolio and volatility of the default rates distribution, weighted average life of transaction, possible loan portfolio performance triggers, available credit enhancement, timing of defaults, expected recovery rates and its volatility, and level of diversification in the underlying pool of assets. The credit risk estimation also takes into account various qualitative factors, such as: reliability and completeness of the available data, size, quality and time horizon of the statistical samples, discontinuity in the origination criteria and servicing procedures, macro-economic effects.

The majority of EIF's financial guarantees are typically rated by at least one external rating agency. In case there are differences in the rating levels among external rating agencies and EIF's internal rating, EIF applies a retained rating approach defining how the rating to calculate the value of the financial guarantee is selected amongst any available external rating(s) and the assigned EIF's internal rating. To allocate capital for an own risk guarantee tranche, EIF computes the economic capital allocation rates based on its internal guidelines, which follow a conservative approach that define a minimum level of capital that needs to be allocated to EIF investments and operations to ensure a 1-year 99.99% level of confidence that investment/operational losses can be absorbed. The rating used to calculate the economic capital allocation is EIF's internal rating. Valuation and capital charge are functions of the expected loss, i.e. they are risk-adjusted and consequently vary according to the assigned rating.

3.3.1.2 On-going risk monitoring

The performance of a transaction is reviewed regularly – at least on a quarterly basis – and assessed based on EIF's surveillance triggers which take into account elements such as the level of cumulative defaults, the credit enhancement, the provisioning amount and any rating actions by external rating agencies, if applicable.

In case of breach of such triggers and depending on the magnitude and expected consequence(s) of such a breach, a transaction can either change its status (e.g. Under review, Positive or Negative outlook) or a model re-run is initiated to reassess EIF's internal rating. Dedicated professionals within ORM submit proposals to the relevant Investment Risk Committee ("IRC") to flag transactions as Under review, Positive or Negative outlook and/or to initiate an EIF's model re-run. Permission to carry out EIF's rating model re-run may also be requested from the IRC before an EIF's trigger is breached (upon request by GSM or ORM-CRM) when other circumstances suggest that EIF's internal rating may already be affected.

EIF systematically puts "Under review" any transaction with an internal rating below iBa2 level. Transactions flagged Under review, Negative outlook or Positive outlook are closely scrutinised for a possible breach of EIF's surveillance trigger as they have the potential to trigger a model re-run and an internal rating action proposal, which in turn could impact the expected loss. EIF's guarantees with the status "Defaulted" are fully provisioned as a loss of 100% is expected or the underlying portfolio is only composed of defaulted and restructured assets and the loss is hence primarily driven by uncertain recoveries.

The following table provides an overview about the status of EIF's own risk guarantee transactions in terms of Exposure at Risk:

EUR

TRANSACTION STATUS	31.12.2016		31.12.2015	
Defaulted	16 266 331	0.3%	48 289 810	1.4%
Negative outlook	0	0.0%	0	0.0%
Under review	65 584 972	1.1%	228 195 761	6.5%
Performing	5 876 875 105	98.6%	3 234 381 365	92.2%
Positive outlook	0	0.0%	0	0.0%
TOTAL EXPOSURE AT RISK	5 958 726 408	100.0%	3 510 866 936	100.0%

The surveillance activity includes the following tasks:

- checking compliance of the counterparties with any relevant contractual covenants and triggers,
- assessing the evolution of an operation's performance compared to estimates set prior to its signature (e.g. actual cumulative default rate is compared to a given predetermined threshold level or default base case scenario),
- assessing whether the level of capital allocation and provisions made for each operation are adequate,
- following up on any external rating agencies' actions (if necessary) that might indicate a substantial change in the performance of the underlying portfolio,
- monitoring any other element of concern which calls for additional scrutiny (e.g. negative news regarding the servicer or originator),
- proposing potential status changes or rating actions to the relevant IRC, if necessary.

The restructuring activity is carried out by dedicated professionals within ORM. ORM is in charge of proposing, during the IRC, the assignment of a Work Out Committee status ("WOC") to a transaction, whenever there is a high likelihood that a loss may arise for EIF and that specific actions may be taken to avoid or minimise such loss - typically for underperforming deals. The assignment of a WOC status can be also proposed by GS&M or decided by the IRC Chairman during the IRC meeting.

The overall goal of a dedicated management of WOC status transactions is to minimise the loss which may arise from the deterioration of the performance of such transactions.

3.3.2 Credit risk

The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls or foreign currency fluctuations) corresponds to the exposure at risk as of 31 December 2016 of EUR 5 958.7m (2015: EUR 3 510.9m).

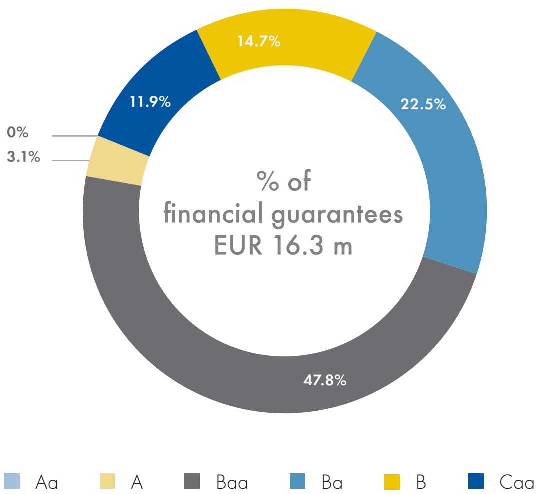
The credit risk is managed by risk management policies covered by the statutes and EIF Credit Risk Policy Guidelines.

The statutes of EIF limit own risk guarantees to three times the subscribed capital, which amounted to EUR 4 382m at end 2016. Hence, the EUR 5 958.7m exposure at risk at end 2016 was below the statutory limit of EUR 12 858.0m.

EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified G&S portfolio with regard to credit quality, geographic coverage, concentration risk, obligor exposure, industry sector diversification and counterparty risk.

The credit risk is tracked from the outset on a deal-by deal basis by adopting a different model analysis depending on the granularity and homogeneity of the underlying portfolio.

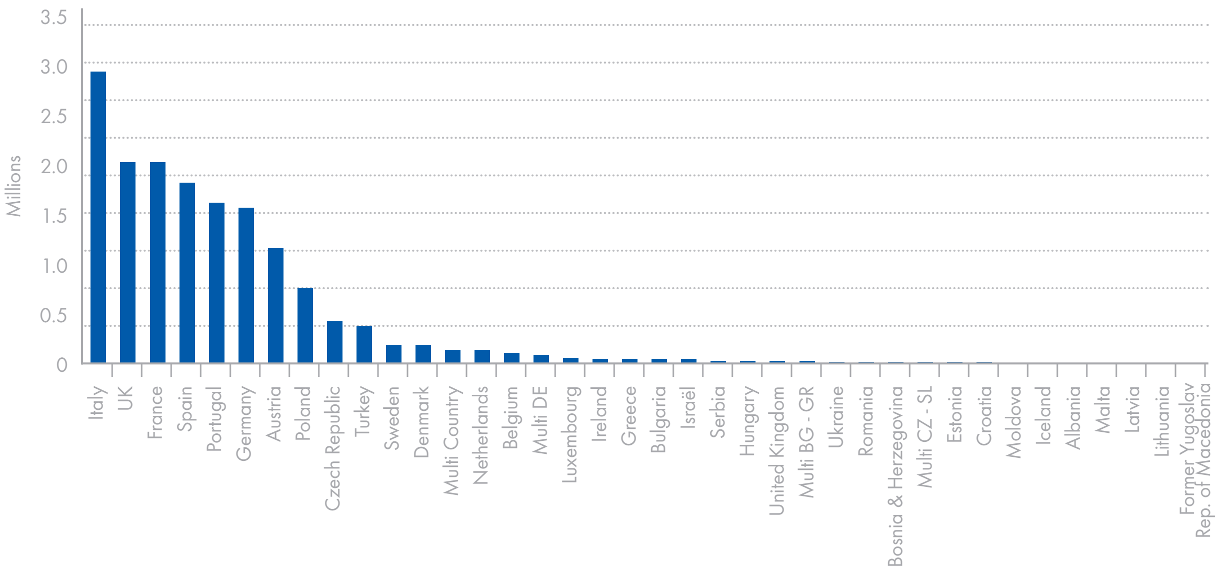
The below table shows the split of the financial guarantees in terms of credit quality (based on EIF's retained rating approach) as of 31 December 2016:



3.3.2.1 Geographic coverage

As of 31 December 2016, EIF's financial guarantees were spread over 38 countries (2015: 22 countries).

The table below shows the geographic distribution of EIF's financial guarantees (EUR 16.3m as of 31 December 2016) showing that the largest weight is to Italy (18.0%), followed by UK (12.9%), France (12.4%), Spain (11.2%) and Portugal (10%):



3.3.2.2 Concentration risk

To limit the concentration risk in the portfolio, EIF has internal limits based on capital allocation at both individual transaction and originator level (maximum aggregate exposures for originators and originator groups). Furthermore, EIF has introduced transaction and originator group exposure limits. Transaction limits define maximum possible exposure dependent on underlying rating and Weighted Average Life ("WAL"). Originator group limits constrain the exposure per originator group by considering the group rating. Concentration risk on a deal-by-deal basis is also limited because of the granular nature of EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, industry sectors and regional diversification.

3.3.2.3 Industry sector exposures

The industry sector exposures are analysed on a deal-by-deal basis through their impact on the ratings assigned by EIF to each transaction/tranche. For instance, depending on the financial model used to analyse the transaction, industry exposures can be reflected in implicit correlation or can be indirectly captured based on assumption of default rate volatility, as a key model input variable. Consideration of sector exposures also forms part of EIF's overall portfolio analysis.

3.3.2.4 Counterparty risk

Counterparty risk in the own resources portfolio is mitigated by the quality of EIF counterparties, which are usually major market players, and by rating triggers on the counterparty which require, in case of breach, actions such as substitution of the counterparty or collateralisation of its obligation. Another key mitigant of the counterparty risk is the general use of structures with a true sale of assets (for the cash flow transactions). Additionally, interruption of servicing is alleviated by the set-up of a back-up servicer agreement in securitisation deals.

3.3.3 Liquidity risk

The nature of EIF's G&S business implies in general a low level of liquidity risk. Furthermore, EIF's treasury guidelines (see section 3.4) ensure a high degree of liquidity to cover potential guarantee calls arising from the G&S activity.

The following table shows an analysis of the financial guarantees (EUR 16m as of 31 December 2016) split by the expected maturity dates of the transactions to which they are related:

EUR

EXPECTED MATURITY OF GUARANTEE

FINANCIAL LIABILITY	NOT MORE THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
As of 31.12.2016	136	1 111 870	4 238 653	10 951 605	16 302 264
As of 31.12.2015	6 571	1 993 713	646 854	11 307 580	13 954 718

3.3.4 Market risk

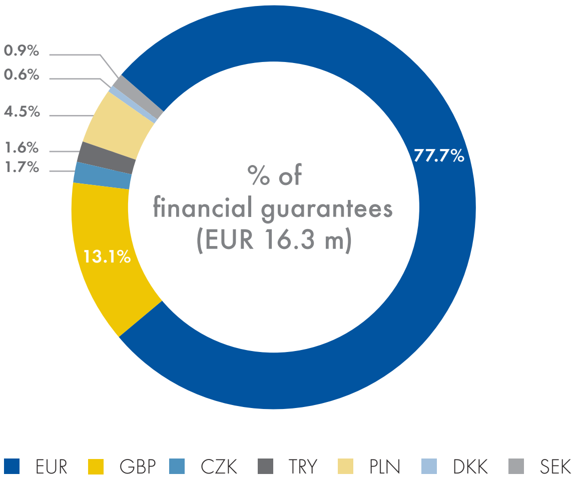
3.3.4.1 Market risk: Interest rate risk

The value of guarantee transactions is not subject to fluctuations with interest rates as long as a transaction is performing. However, transactions for which EIF is being called on interest are typically generating exposure to short term interest rates through the coupon definition of the guaranteed tranche.

3.3.4.2 Market risk: Foreign currency risk

The split by currency for EIF guarantees measured as financial guarantees (EUR 16.3m as of 31 December 2016) is as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (EXPRESSED IN EUR)



The following table shows the impact on the financial guarantees position regarding a 15% increase / decrease in the currency rate:

in EUR

Currency	Financial liability	Impact increase	Impact decrease
GBP	2 129 327	(277 738)	375 764
CZK	271 562	(35 421)	47 923
TRY	253 471	(33 061)	44 730
PLN	728 173	(94 979)	128 501
DKK	95 320	(12 433)	16 821
SEK	142 833	(18 630)	25 206
USD	93 013	(12 132)	16 414

EIF is monitoring its non-euro financial guarantees and performs regular stress tests with regard to currency risk.

3.3.4.3 Market risk: other price risk

EIF's G&S transactions are not sensitive to price risk.

3.4 Debt securities and other fixed income securities

3.4.1 Introduction

Treasury management has been outsourced to the EIB under a treasury management agreement mandating the EIB services to perform selection, execution, settlement and monitoring of transactions. Management follows treasury guidelines annexed to the agreement which define EIF's intention to hold the treasury portfolio to maturity, reflect the investment strategy, and mirror closely the relevant sections of the EIB's own treasury guidelines. Quarterly meetings between the EIB and EIF take place to review the performance of the treasury portfolio and relevant market events.

Additionally, the Asset & Liquidity Committee ("ALC") analyse liquidity issues of strategic relevance with the objective of maintaining the balance between risk and return objectives. As part of its responsibilities, the ALC advises on the management of EIF Treasury Portfolio entrusted to the EIB for management.

3.4.2 Portfolio overview

The treasury portfolio is broken down into the following separate sub-portfolios:

- current accounts;
- money market instruments and short term securities;
- available for sale portfolio (made up of long-term debt instruments, floating rate and fixed rate instruments).

EIF does not borrow funds.

EUR

	31.12.2016	31.12.2015
Current accounts	166 703 135	138 400 478
Money market instruments and short term securities	51 417 905	88 889 253
Available for sale portfolio	1 285 902 716	1 397 108 893
TOTAL TREASURY PORTFOLIO	1 504 023 756	1 624 398 624

3.4.3 Credit risk

The Fund is exposed to credit risk relating to its assets held in the treasury portfolio. However, EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio, the eligibility criteria for counterparties are fixed according to their nature, to their credit quality (as measured by their external credit ratings) and to their own funds.

As at 31 December 2016 and 2015, all investments in the available for sale portfolio are made in EUR.
The following table shows the maximum exposure to credit risk for treasury:

EUR

	MAXIMUM EXPOSURE 2016	MAXIMUM EXPOSURE 2015
Cash and cash equivalents	218 121 040	227 289 731
Debt securities and other fixed income securities	1 285 902 716	1 397 108 893
TOTAL CREDIT RISK EXPOSURE	1 504 023 756	1 624 398 624

The following table outlines the credit quality of the Fund's debt securities and other fixed income securities as of 31 December 2016 and 2015, based on external ratings.

AFS - DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES	31.12.2016		31.12.2015	
MINIMUM ISSUE RATING	FAIR VALUE IN EUR	%	FAIR VALUE IN EUR	%
Aaa	304 513 914	23.68%	316 626 728	22.65%
Aa1	96 699 310	7.52%	97 229 482	6.96%
Aa2	156 845 109	12.20%	184 243 919	13.19%
Aa3	120 521 257	9.37%	113 751 054	8.14%
A1	166 301 973	12.93%	189 256 752	13.55%
A2	168 650 797	13.12%	186 768 524	13.37%
A3	76 341 666	5.94%	66 217 946	4.74%
Baa1	52 881 254	4.11%	74 567 449	5.34%
Baa2	102 097 854	7.94%	126 967 527	9.09%
Baa3	0	0.00%	0	0.00%
Ba1	21 313 592	1.66%	22 106 481	1.58%
Ba3	0	0.00%	0	0.00%
Unrated	19 735 990	1.53%	19 373 031	1.39%
TOTAL	1 285 902 716	100.00%	1 397 108 893	100.00%

A breakdown of the EU sovereign bond exposure is given in the table below (including EU bonds of EU sovereigns).

EUR

FAIR VALUE	31.12.2016	31.12.2015
EU sovereigns		
Italy	102 097 854	126 967 529
Ireland	16 499 637	17 103 725
Austria	67 640 498	68 106 431
Spain	41 941 675	52 610 310
Slovakia	48 741 567	49 768 323
European Union (other)	45 292 873	45 276 742
Poland	33 270 740	34 226 653
Germany	34 002 983	34 178 812
France	46 411 753	25 656 510
Portugal	21 313 592	22 106 481
Greece	19 735 990	19 373 031
Luxembourg	17 240 473	17 304 737
Lithuania	14 269 963	14 887 567
Czech Republic	11 020 671	11 459 872
Slovenia	5 825 307	11 115 823
	525 305 576	550 142 546
Corporate bonds and non EU sovereign	760 597 140	846 966 347
TOTAL	1 285 902 716	1 397 108 893

As of 31 December 2016, EIF's AFS debt securities portfolio was spread over 27 countries. The greatest individual country exposures were Germany, France, Italy, The Netherlands and Austria, which jointly accounted for 49% of total nominal value.

3.4.4 Liquidity risk

The treasury is managed in such a way as to protect the value of the paid-in capital, ensure an adequate level of liquidity to meet possible guarantee calls, PE undrawn commitments, administrative expenditure and earn a reasonable return on assets invested with due regard to the minimisation of risk.

The treasury funds are available and sufficient to meet the Fund's liquidity needs and the treasury guidelines are designed to ensure funds are available when needed. The guidelines also prescribe the order in which investments would be utilised to meet exceptional liquidity requirements, starting with cash, highly liquid money market instruments, then the regular maturities of longer investments as well as the option to sell securities or use them as collateral to generate liquidity if appropriate.

3.4.5 Market risk – Interest rate risk

In nominal terms approximately 94.8% of all assets held have a duration of 5 years or less, (2015: 84.04%).

Speculative operations are not authorised. Investment decisions are based on the interest rates available in the market at the time of investment.

The following table illustrates the Fund's exposure to interest rate risk (figures are presented at fair value) at the time they reprice or mature:

EUR

AT 31.12.2016	FIXED RATE				TOTAL
	LESS THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	
Cash and cash equivalents	218 121 040	0	0	0	218 121 040
AFS - Debt securities and other fixed income securities	41 184 530	129 918 504	1 010 337 036	104 462 646	1 285 902 716
TOTAL	259 305 570	129 918 504	1 010 337 036	104 462 646	1 504 023 756
Percentage	17.2%	8.7%	67.2%	6.9%	100.0%

EUR

AT 31.12.2015	FIXED RATE				TOTAL
	LESS THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	
Cash and cash equivalents	227 289 731	0	0	0	227 289 731
AFS - Debt securities and other fixed income securities	10 365 514	103 890 242	1 021 020 620	261 832 517	1 397 108 893
TOTAL	237 655 245	103 890 242	1 021 020 620	261 832 517	1 624 398 624
Percentage	14.6%	6.5%	62.8%	16.1%	100.0%

The average yield at cost on the AFS securities portfolio in EUR was 1.6 % for 2016 (2015: 1.5 %).

Sensitivity of earnings

The sensitivity of earnings is an estimate of the change over the next 12 months in the earnings of EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or fall by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in EIF's treasury portfolio on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life as the previous one as of 31 December 2015. For the positions in place as of 31 December 2016, the earnings of EIF's treasury portfolio would increase by EUR 0.7m (2015: EUR 0.4m) if interest rates rose by one percentage point and decrease by the same amount if interest rates fell by one percentage point.

Value at risk

As of 31 December 2016, the Value at Risk of EIF's treasury portfolio was EUR 1.1m (EUR 7.0 m in 2015). It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99.0% and a 1-day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1.0%. Given the nature of EIF's treasury positions, the choice of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk.

3.5 Loans and receivables

Securitisation backed by SME financing is an asset class in which EIF has accumulated considerable and widely-recognised experience as part of its core guarantee and securitisation activity. It has, however, been observed that third party investors are not always available for the subscription of guaranteed notes, due to specific tranche features or to the sum of the EIF guarantee fee and the cash investor's return exceeding the tranche market return. EIF therefore envisaged filling the gap through a new product consisting in direct investments in asset-backed securities issued out of securitisations focusing on SME assets ("ABS Investments") within a limited scope and as an ancillary activity to the core EIF guarantee business.

On 30 January 2015, the General Meeting of Shareholders had approved the implementation of direct investments in SME-focused asset-back securities ("ABS Investments"). The ABS Investments would target:

- Mainly mezzanine classes of SMER securitisations originated by financial intermediaries (i) for which there is a limited purposes and/or (ii) as a way to maximise the funding obtained from their securitisation transactions, in situations where there is limited or no third party investors' demand for EIF guaranteed notes;
- Residually and with EIF's own resources only, senior classes of SME focused securitisations (i) for which there is limited or no third party investors' demand for EIF guaranteed notes and (ii) which require a moderate direct investment.

According to the decision taken by the Shareholders, ABS Investments with EIF's own resources decided to allocate a maximum amount of EUR 200m with an individual ABS Investment limited to 50m.

3.5.1 Risk assessment and on-going risk monitoring

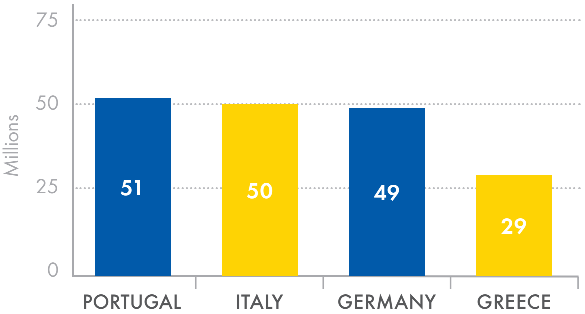
EIF's loans and receivables follow the same independent opinion process and on-going risk monitoring as the transactions under EIF's portfolio guarantee and structured business (see note 3.3.1).

TRANSACTION STATUS	31.12.2016		31.12.2015	
	EUR	%	EUR	%
Negative outlook	0	0%	10 073 874	17%
Performing	178 677 542	100%	50 137 468	83%
TOTAL EXPOSURE AT RISK	178 677 542	100%	60 211 342	100%

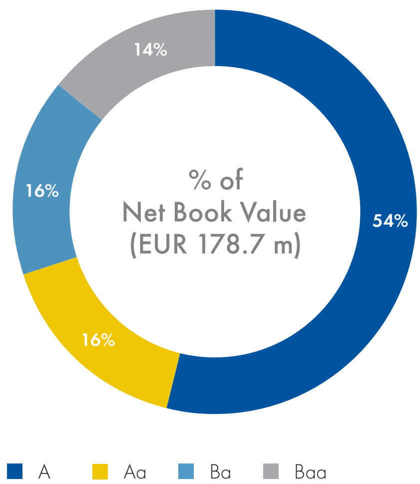
3.5.2 Credit risk

Loans and receivables are exposed to credit risk by way of rating downgrade and default risk. EIF manages this risk by adhering to risk management policies laid out in its statutes, EIF Credit Risk Policy Guidelines and internal concentration limits (see note 3.3.2).

A breakdown of the portfolio by country exposure is given in the table below:



A breakdown of the portfolio per rating is given in the table below:



3.5.3 Liquidity risk

EIF invests in loans and receivables listed on a regulated exchange but without an active and liquid secondary market, implying a potential liquidity risk in case of settlement before maturity. Nevertheless, liquidity risk is limited for these investments as EIF intends to hold them until redemption.

The following table shows an analysis of the loans and receivables portfolio (EUR 178.7m as of 31 December 2016) split by the expected maturity dates of the transactions to which they are related:

EXPECTED MATURITY OF LOANS AND RECEIVABLES (EUR)

	NOT MORE THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
As of 31.12.2016	0	0	178 677 543	0	178 677 543
As of 31.12.2015	0	0	50 186 759	0	50 186 759

3.5.4 Market Risk

3.5.4.1. Market risk - Interest rate risk

Loans and receivables are debt securities with either a variable interest rate plus a quoted spread or a fixed coupon. Floating rate securities carry little interest rate risk as its duration is usually close to zero (it converges to zero as reset date approaches), meaning that its price has very low sensitivity to changes in interest rates.

The following table illustrates the Fund's exposure to interest rate risk through the loans and receivables portfolio based on its repricing dates:

NET BOOK VALUE (EUR)

	NOT MORE THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Fixed rate	0	0	48 700 000	0	48 700 000
Floating rate	25 111 139	104 866 403	0	0	129 977 542
TOTAL	25 111 139	104 866 403	48 700 000	0	178 677 542

3.5.4.2. Market risk - Foreign currency risk

As at 31 December 2016, EIF's loans and receivables are invested in EUR and in DKK. However, as the loans and receivables in DKK are fully impaired, EIF is not exposed to foreign exchange risk.

3.6 Fair value of financial assets and financial liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, EIF measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 2.3.2.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

- PE is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by a few experts, normally the fund managers who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and in accordance with customary industry valuation guidelines.

For loans and receivables as well as other liabilities, the carrying values approximate fair values.

The fair value hierarchy reflects the significance of the inputs used in making the measurements. These levels differ from the category classification mentioned under 2.3.2a:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

AT 31.12.2016	LEVEL 1	LEVEL 2	LEVEL 3	EUR TOTAL
Financial assets				
Debt securities and other fixed income securities				
Financial investments - AFS	1 266 166 726	19 735 990	0	1 285 902 716
Shares and other variable income securities				
Financial investments - AFS	0	0	380 574 924	380 574 924
Financial assets designated at fair value through P&L	0	0	6 300 335	6 300 335
Loans and receivables	0	0	178 677 543	178 677 543
	1 266 166 726	19 735 990	565 552 802	1 851 455 518

AT 31.12.2015	LEVEL 1	LEVEL 2	LEVEL 3	EUR TOTAL
Financial assets				
Debt securities and other fixed income securities				
Financial investments - AFS	1 377 735 862	19 373 031	0	1 397 108 893
Shares and other variable income securities				
Financial investments - AFS	0	0	338 212 935	338 212 935
Financial assets designated at fair value through P&L	0	0	7 517 545	7 517 545
Loans and receivables	0	0	50 186 759	50 186 759
	1 377 735 862	19 373 031	395 917 239	1 793 026 132

The Fund's policy is to recognise the transfers between Levels as of the date of the event or change in circumstances that caused the transfer.
Details of the movements of financial assets in 2016 are given in notes 4.2, 4.3 and 4.4.
There was no transfer of financial assets between Level 1 and Level 3 in 2016 or 2015.

4 DETAILED DISCLOSURES RELATING TO ASSET HEADINGS

4.1 Cash and cash equivalents

The effective interest rate on short-term bank deposits is 0.95% (2015: -0.16%). These deposits have an average remaining maturity of 19 days (2015: 5 days).

EUR

	31.12.2016	31.12.2015
Current accounts	166 703 135	138 400 478
Money market instruments	51 417 905	88 889 253
	218 121 040	227 289 731

4.2 Debt securities and other fixed income securities

The Fund's portfolio includes long-term debt instruments i.e. bonds, notes and other obligations.

EUR

	31.12.2016	31.12.2015
Available-for-Sale portfolio	1 269 985 339	1 379 894 469
Accrued interest on Available-for-Sale portfolio	15 917 377	17 214 424
	1 285 902 716	1 397 108 893

Movement in debt securities and other fixed income securities: EUR

	2016	2015
CARRYING AMOUNT AT 1 JANUARY	1 397 108 893	1 465 877 370
Additions	17 758 851	91 959 338
Disposals/ matured	(122 497 918)	(138 779 254)
Effective interest rate adjustment	(8 079 440)	(13 351 312)
Change in Fair value reserve	1 612 330	(8 597 249)
CARRYING AMOUNT AT 31 DECEMBER	1 285 902 716	1 397 108 893

The total fair value reserve recognised in equity at the end of 2016 and attributable to debt securities and other fixed income securities is EUR 54 680 273 (2015: EUR 53 067 944).

No impairment was recorded on the portfolio in either 2016 or 2015.

4.3 Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

	2016	EUR 2016 OF WHICH LEVEL 3
Investment at cost at 1 January	263 213 768	263 213 768
Disbursements	101 388 039	101 388 039
Net disbursements in relation to EFSI EP - SW2	5 334 804	5 334 804
Capital repayments	(48 270 416)	(48 270 416)
Terminated deals	(3 784 536)	(3 784 536)
Transferred to other assets due to earn out transactions	(1 275 927)	(1 275 927)
Transferred to other assets due to secondary sale transactions		
INVESTMENT AT COST AT 31 DECEMBER	316 605 732	316 605 732
Fair value adjustment and foreign exchange adjustment at 1 January	82 516 712	82 516 712
Adjustments to fair value reserve during the financial year:		
- Decrease in fair value for non impaired funds	(11 734 379)	(11 734 379)
- Decrease in fair value for funds previously impaired	(1 924 596)	(1 924 596)
- Transfer of fair value reserve due to 2016 events		
- for funds newly impaired	1 343 080	1 343 080
- for funds terminated	(518 205)	(518 205)
- for funds earned out	(14 618)	(14 618)
Increase in fair value in relation to EFSI EP SW2	9 186	9 186
	(12 839 532)	(12 839 532)
Terminated transactions - cumulated impairment losses until derecognition	4 288 777	4 288 777
Earn out transactions - cumulated impairment losses	1 261 310	1 261 310
Impairment losses	(5 073 863)	(5 073 863)
Changes in fair value through profit or loss	116 123	116 123
VALUE ADJUSTMENT AND FOREIGN EXCHANGE ADJUSTMENT AT 31 DECEMBER	70 269 527	70 269 527
CARRYING AMOUNT AT 31 DECEMBER	386 875 259	386 875 259

	2015	EUR 2015 OF WHICH LEVEL 3
Investment at cost at 1 January	277 599 357	276 421 506
Disbursements	65 665 832	65 665 832
Capital repayments	(50 869 007)	(50 869 007)
Terminated deals	(7 230 342)	(6 052 491)
Transferred to other assets due to earn out transactions	(5 240)	(5 240)
Transferred to other assets due to secondary sale transactions	(21 946 832)	(21 946 832)
INVESTMENT AT COST AT 31 DECEMBER	263 213 768	263 213 768
Fair value adjustment and foreign exchange adjustment at 1 January	37 365 870	38 522 832
Adjustments to fair value reserve during the financial year		
- Increase in fair value for non impaired funds	32 317 189	32 317 189
- Increase in fair value for funds previously impaired	2 189 831	2 189 831
- Transfer of fair value reserve due to 2015 events		
- for funds newly impaired	1 116 661	1 116 661
- for funds terminated	(79 440)	(79 440)
- for funds earned out	(1 296 967)	(318 475)
- for funds included in a secondary sale transaction	(11 228 979)	(11 228 979)
	23 018 295	23 996 787
Terminated transactions - cumulated impairment losses until derecognition	8 258 848	6 123 394
Secondary sale transactions - cumulated impairment losses until derecognition	13 918 929	13 918 929
Impairment losses	(2 788 608)	(2 788 608)
Changes in fair value through profit or loss	2 743 378	2 743 378
VALUE ADJUSTMENT AND FOREIGN EXCHANGE ADJUSTMENT AT 31 DECEMBER	82 516 712	82 516 712
CARRYING AMOUNT AT 31 DECEMBER	345 730 480	345 730 480

In 2015, EIF disposed of 15 funds in a secondary sale transaction. In accordance with the sale agreement, a portion of the sale price was deferred and an amount of EUR 5.6m was recognised as receivable, of which EUR 3.4m is still to be received as at 31 December 2016.

Investments belonging to Category C, which are valued at cost less impairment in the absence of additional compliant data at reporting date have zero value at the end of 2016 (2015: EUR 2).

The fair value as of 31 December 2016 includes an amount of EUR 6 300 335 (2015: EUR 7 517 545) related to investment in joint ventures.

4.4 Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

EUR

	31.12.2016	31.12.2015
Loans and Receivables portfolio	178 543 941	50 137 468
Accrued interest on Loans and Receivables portfolio	133 602	49 291
	178 677 543	50 186 759

Movement in loans and receivables:

EUR

	2016	2015
Investment at cost at 1 January	50 186 759	0
Additions	138 700 000	60 214 292
Disposals/matured	(10 267 199)	0
Accrued interest on Loans and Receivables portfolio	84 310	49 291
Effective interest rate adjustment	(26 327)	(2 949)
Impairment	0	(10 050 116)
Foreign exchange impact	0	(23 759)
INVESTMENT AT COST AT 31 DECEMBER	178 677 543	50 186 759

Pursuant to the payment of a guarantee call amounting to EUR 35m in relation with one credit institution included in the transaction ScandiNotes and the utilisation of the provision for financial guarantee, EIF decided to substitute its remaining exposure to that credit institution by subscribing to a contingent convertible bond issued for a total amount of DKK 75m. Despite the issuance of such bond, the financial situation of the bank did not improve and as at 31 December 2016 after having made its impairment review, EIF decided to fully impair its exposure.

4.5 Other assets

Other assets are made up of the following:

EUR

	31.12.2016	31.12.2015
Accounts receivable relating to pensions managed by the EIB	117 902 112	95 014 178
Advanced payments	0	1 547
Accrued commission & other income	97 432 571	47 480 776
Fees receivable on financial guarantees	7 336 259	4 149 003
Receivables from secondary sales transactions	3 377 576	5 649 641
Receivables from earn-out agreements	575 022	662 037
Other debtors	4 720 950	4 644 454
	231 344 490	157 601 636

Following the introduction of a defined benefit pension scheme in 2003 (see note 2.7), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management on behalf of the Fund. See also note 5.3.

In 2015, EIF disposed of 15 funds in a secondary sale transaction. In accordance with the sale agreement, a portion of the sale price was deferred and an amount of EUR 5.6m was therefore recognised as receivable, of which EUR 3.4m is still to be received as at 31 December 2016.

The following table discloses the ageing of other assets:

EUR

			PAST DUE BUT NOT IMPAIRED		
	TOTAL	NEITHER PAST DUE NOR IMPAIRED	0-6 MONTHS	6-12 MONTHS	> 12 MONTHS
2016	231 344 490	231 323 727	2 942	0	17 821
2015	157 601 636	157 559 006	6 633	1 126	34 871

4.6 Intangible assets

EUR

	INTERNALLY GENERATED SOFTWARE	PURCHASED SOFTWARE	TOTAL
Cost	5 582 268	251 578	5 833 846
Accumulated amortisation	(5 286 439)	(251 578)	(5 538 017)
Carrying amount at 01.01.2015	295 829	0	295 829
Opening carrying amount	295 829	0	295 829
Additions	71 052	0	71 052
Amortisation charge	(172 046)	0	(172 046)
Carrying amount at 31.12.2015	194 835	0	194 835
Cost	5 653 320	251 578	5 904 898
Accumulated amortisation	(5 458 485)	(251 578)	(5 710 063)
Carrying amount at 01.01.2016	194 835	0	194 835
Opening carrying amount	194 835	0	194 835
Amortisation charge	(144 924)	0	(144 924)
Carrying amount at 31.12.2016	49 911	0	49 911
31.12.2016			
Cost	5 653 320	251 578	5 904 898
Accumulated amortisation	(5 603 409)	(251 578)	(5 854 987)
Carrying amount	49 911	0	49 911

There were no indications of impairment of intangible assets in either 2016 or 2015.

4.7 Property and equipment

EUR

	INVESTMENT PROPERTY	OTHER PROPERTY	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	TOTAL EQUIPMENT
Cost	7 139 812	0	202 401	818 355	1 020 756
Accumulated depreciation	(2 307 334)	0	(199 822)	(818 355)	(1 018 177)
Carrying amount at 01.01.2015	4 832 478	0	2 579	0	2 579
Opening carrying amount	4 832 478	0	2 579	0	2 579
Depreciation charge	(374 150)	0	(482)	0	(482)
Transfer to non-current assets held for sale	(4 458 328)	0	0	0	0
Carrying amount at 31.12.2015	0	0	2 097	0	2 097
Cost	2 681 484	0	202 401	818 355	1 020 756
Accumulated depreciation	(2 681 484)	0	(200 304)	(818 355)	(1 018 659)
Carrying amount at 01.01.2016	0	0	2 097	0	2 097
Opening carrying amount	0	0	2 097	0	2 097
Depreciation charge	0	(59 688)	(481)	0	(481)
Transfer from non-current assets held for sale	0	530 652	0	0	0
Carrying amount 31.12.2016	0	470 964	1 616	0	1 616
31.12.2016					
Cost	0	530 652	202 401	818 355	1 020 756
Accumulated depreciation	0	(59 688)	(200 785)	(818 355)	(1 019 140)
Carrying amount	0	470 964	1 616	0	1 616

There were no indications of impairment of equipment or investment property in either 2016 or 2015.

As at 31 December 2015, the investment property was transferred to non-current assets held for sale.

On 27 January 2016, the investment property was sold (please refer to note 7.5). However the Fund decided to keep parking slots for its employees which were previously included within non current assets held for sale. As these do not generate any rental income for EIF, they can no longer be considered as an investment property. Therefore, they are now disclosed in other properties.

5. DETAILED DISCLOSURES RELATING TO LIABILITIES AND EQUITY HEADINGS

5.1 Financial liabilities

The movements relating to financial guarantees liabilities are set out below:

EUR

	2016	2015
Balance at the beginning of the financial year	13 954 718	12 902 616
Guarantee calls	0	(569 629)
Net increase/decrease in financial guarantees	4 250 276	715 499
Remeasurement of the liability due to rating changes	(1 902 730)	906 232
BALANCE AT THE END OF THE FINANCIAL YEAR	16 302 264	13 954 718

When a guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under financial guarantees is transferred to the heading Provisions for financial guarantees.

5.2 Provisions for financial guarantees

EUR

	2016	2015
Balance at 1 January	81 571 994	145 853 322
Additions	0	100 143
Utilised	(35 990 866)	(35 514 394)
Release of provision	(16 771 995)	(28 867 077)
BALANCE AT 31 DECEMBER	28 809 133	81 571 994

5.3 Retirement benefit obligations

The retirement benefit obligation comprises the pension scheme and the health insurance scheme as follows:

EUR

RETIREMENT BENEFIT OBLIGATIONS	31.12.2016	31.12.2015
Pension scheme	228 884 389	133 253 823
Health insurance scheme	51 467 434	18 942 000
	280 351 823	152 195 823

Commitments in respect of retirement benefits as of 31 December, 2016 have been valued by an independent actuary. The calculations are based on the following main assumptions:

PRINCIPAL ASSUMPTIONS	2016	2015
Discount rate for obligations	1.95%	3.91%
Rate of future compensation increases	3.50%	4.50%
Rate of pension increases	1.75%	2.00%
Actuarial tables	ICSLT	ICSLT

As at 2016, the Fund decided to review the principal assumptions used to calculate the defined benefit obligation of the pension and of the health insurance as disclosed in the above table.

Regarding the discount rate, IBOXX Corporate AA with the longest available duration remained the yield basis. However, considering that the number of underlying corporate bonds of IBOXX Corporate AA 10+ keeps on decreasing, only the index IBOXX Corporate AA 7-10 is retained. For the extrapolation of the discount rate, considering that the long duration of the Fund liabilities (around 20 years), a readily available and robust reference long term curve was required to derive a 20 year discount rate. For this purpose, the Fund retained the ECB EURO Spot yield curve.

Regarding the inflation and indexation of pensions, the long term consensus forecast of inflation in the Eurozone remained the basis. However, as ECB aims at inflation rates of below, but close to 2% over the medium term, a 1.75% rate was retained.

Regarding the salary increase and in the context of a low growth macroeconomic scenario, compensation increases in the European institutions and in the financial sector are likely to remain subdued. In this respect a 3.5% assumption was retained.

Changes in the principle assumptions were reviewed by external advisory company, who concluded that those changes were consistent with the different observations and market practices and led to a more accurate assessment of the pension obligation. The financial impact of these changes amounts to EUR 28m.

As at 31 December 2015, the discount rate is based on internal assumptions and on a market observable index, which are the iBoxx EUR Corporates AA 7-10 years index and the iBoxx EUR Corporates AA 10 years+ index. The first index is a composite of 8 financial bonds and 19 non-financial bonds and the second index is a composite of 7 financial bonds and 21 non-financial bonds. As at December 2015, the indexes amounted respectively to 1.39% and 2.03%.

The defined benefit obligation for pensions as valued in the independent actuary report dated 31 January 2017 amounts to EUR 228 884 389 (2015: EUR 133 253 823). As of December 2016 the Fund allocated EUR 89 106 999 (2015: EUR 73 763 575) to pension assets.

EUR

AMOUNTS RECOGNISED IN COMPREHENSIVE INCOME AS AT 31.12.2016	EIF PENSION	HEALTH INSURANCE	TOTAL 2016
Current net service cost	10 863 000	2 895 000	13 758 000
Special termination benefits	544 000	0	544 000
Net interest cost	5 451 000	797 000	6 248 000
Net benefit expense recognised in profit or loss	16 858 000	3 692 000	20 550 000
Re-measurement on the defined benefit obligation:			
Experience loss/(gain)	(3 163 000)	661 000	(2 502 000)
Special termination benefits	544 000	0	544 000
Loss due to assumption changes	77 284 000	28 180 000	105 464 000
Defined benefit obligation recognised in other comprehensive income	74 665 000	28 841 000	103 506 000
TOTAL	91 523 000	32 533 000	124 056 000

EUR

AMOUNTS RECOGNISED IN COMPREHENSIVE INCOME AS AT 31.12.2015	EIF PENSION	HEALTH INSURANCE	TOTAL 2015
Current net service cost	10 795 000	3 252 000	14 047 000
Net interest cost	4 477 000	706 000	5 183 000
Net benefit expense recognised in profit or loss	15 272 000	3 958 000	19 230 000
Re-measurement on the defined benefit obligation:			
Experience loss/(gain)	10 120 000	(1 326 000)	8 794 000
Loss due to assumption changes	(33 181 000)	(4 551 000)	(37 732 000)
Defined benefit obligation recognised in other comprehensive income	(23 061 000)	(5 877 000)	(28 938 000)
TOTAL	(7 789 000)	(1 919 000)	(9 708 000)

The movements in the "Retirement benefit obligations" rounded to the nearest EUR 1 000 are as follows:

EUR

CHANGES IN DEFINED BENEFIT OBLIGATION AS AT 31.12.2016	EIF PENSION	HEALTH INSURANCE	TOTAL 2016
Defined benefit obligation, Beginning of year	133 253 823	18 942 000	152 195 823
Net service cost	10 863 000	2 895 000	13 758 000
Net interest cost	5 451 000	797 000	6 248 000
Employee contributions	3 238 000	7 000	3 245 000
Benefits Paid	1 436 000	(37 000)	1 399 000
Special termination benefits	544 000	0	544 000
Experience Loss/ (gain)	(3 163 000)	661 000	(2 502 000)
Loss due to assumption changes	77 284 000	28 180 000	105 464 000
DEFINED BENEFIT OBLIGATION, END OF YEAR	228 906 823	51 445 000	280 351 823

EUR

CHANGES IN DEFINED BENEFIT OBLIGATION AS AT 31.12.2015	EIF PENSION	HEALTH INSURANCE	TOTAL 2015
Defined benefit obligation, Beginning of year	135 971 823	20 884 000	156 855 823
Net service cost	10 795 000	3 252 000	14 047 000
Net interest cost	4 477 000	706 000	5 183 000
Employee contributions	2 630 000	0	2 630 000
Benefits Paid	2 441 000	(23 000)	2 418 000
Experience Loss/ (gain)	10 120 000	(1 326 000)	8 794 000
Loss due to assumption changes	(33 181 000)	(4 551 000)	(37 732 000)
DEFINED BENEFIT OBLIGATION, END OF YEAR	133 253 823	18 942 000	152 195 823

The sensitivity of the DBO to possible changes at the reporting date to key actuarial assumptions, holding other assumptions constant, is shown below:

31 DECEMBER 2016		EFFECT ON THE DEFINED BENEFIT OBLIGATION	
		EIF PENSION	HEALTH INSURANCE
Discount rate	1% increase	-26%	-30%
Discount rate	1% decrease	38%	45%
Life expectancy	1 year increase	4%	6%
Life expectancy	1 year decrease	-4%	-6%
Inflation	1% increase	21%	
Inflation	1% decrease	-16%	
Salary rate	1% increase	14%	
Salary rate	1% decrease	-11%	
Medical cost	1% increase		43%
Medical cost	1% decrease		-29%

31 DECEMBER 2015		EFFECT ON THE DEFINED BENEFIT OBLIGATION	
		EIF PENSION	HEALTH INSURANCE
Discount rate	1% increase	-24%	-27%
Discount rate	1% decrease	34%	40%
Life expectancy	1 year increase	3%	4%
Life expectancy	1 year decrease	-3%	-5%
Inflation	1% increase	19%	
Inflation	1% decrease	-15%	
Salary rate	1% increase	14%	
Salary rate	1% decrease	-12%	
Medical cost	1% increase		40%
Medical cost	1% decrease		-28%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the DBO at the reporting date were as follows:

31 DECEMBER 2016	EIF PENSION	HEALTH INSURANCE
	YEARS	YEARS
Duration of active members	31.1	36.6
Duration of deferred members*	33.1	0
Duration of retired members	15.4	22.7

Life expectancy at age 60 for a male using ICSLT (year 2016) mortality tables: 25 years
Life expectancy at age 60 for a female using ICSLT (year 2016) mortality tables: 26.7 years

* Staff members who have left the Fund before retirement age and have a right to a deferred pension.

31 DECEMBER 2015	EIF PENSION	HEALTH INSURANCE
	YEARS	YEARS
Duration of active members	29.4	33.9
Duration of deferred members*	31.9	0
Duration of retired members	14.2	21.4

Life expectancy at age 60 for a male using ICSLT (year 2015) mortality tables: 24.9 years
Life expectancy at age 60 for a female using ICSLT (year 2015) mortality tables: 26.6 years

* Staff members who have left the Fund before retirement age and have a right to a deferred pension.

5.4 Other liabilities and provisions

		EUR
	31.12.2016	31.12.2015
Related parties payables	8 162 268	27 400 895
Employee benefit payables	51 363 191	39 224 717
Trade creditors	37 852 552	13 965 864
	97 378 011	80 591 476

Employee benefit payables mostly include staff-related costs such as the bonus, the optional supplementary provident scheme (OSPS) and the severance grant.

5.5 Share capital

The authorised capital amounts to EUR 4.5bn, divided into 4 500 shares with a nominal value of EUR 1 000 000 each. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

On 27 May 2014, the Extraordinary General Meeting of Shareholders decided EIF's capital increase from EUR 3 000 000 000 to EUR 4 500 000 000, resulting in a total of 4 500 authorised shares of a nominal value of EUR 1 000 000 each.

In July 2014, the first capital increase subscription period was processed resulting in an increase of EUR 1 161 000 000 by issuing 1 161 authorised shares of a nominal value of EUR 1 000 000 each.

In July 2015, a second capital increase subscription period was processed resulting in an increase of EUR 125 000 000 by issuing 125 authorised shares of a nominal value of EUR 1 000 000 each and fully reserved by the European Union represented by the European Commission.

In July 2016, a third capital increase subscription period was processed resulting in an increase of EUR 96 000 000 by issuing 96 authorised shares of a nominal value of EUR 1 000 000 each and fully reserved by the European Union represented by the European Commission.

118 shares are not yet issued, having been allocated to the European Union for subsequent subscription in 2017.

As at 31 December 2016, the authorised and subscribed share capital of EUR 4 382 000 000 representing 4 382 shares is called and paid in for an amount of EUR 876 400 000 representing 20% of the authorised and subscribed share capital.

The subscribed share capital is detailed as follows:

	31.12.2016	31.12.2015
		EUR
Subscribed and paid in (20%)	876 400 000	857 200 000
Subscribed but not yet called (80%)	3 505 600 000	3 428 800 000
	4 382 000 000	4 286 000 000

The capital is subscribed as follows :

	31.12.2016	31.12.2015
		Number of shares
European Investment Bank	2 624	2 632
European Commission	1 232	1 136
Financial institutions	526	518
	4 382	4 286

5.6 Statutory reserve and retained earnings

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20% of its annual net profit until the aggregate reserve amounts to 10% of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 24 414 336 is required to be appropriated in 2017 with respect to the financial year ended 31 December, 2016.

The General Meeting of Shareholders of 11 April 2016 approved the distribution of a dividend amounting to EUR 24 339 542 (2015: EUR 21 086 152). Dividends are distributed in line with Article 27 of the Fund's Statutes.

Under the terms of Article 26 of its Statutes, the Fund defines commitment ceilings in relation to its capital as follows:

- For guarantee operations commitments are limited to three times the amount of subscribed capital.
- Private equity net commitments may not exceed 50% of equity, excluding the fair value reserve as per decision of the Annual General Meeting.

5.7 Fair value reserve

The fair value reserve includes the following:

	31.12.2016	31.12.2015
		EUR
Fair value reserve on debt securities and other fixed income securities	54 680 273	53 067 943
Fair value reserve on shares and other variable income securities	108 197 347	121 036 879
	162 877 620	174 104 822

The fair value reserve contains fair value changes related to EIF treasury, private equity portfolios and exposure to European Fund for Strategic Investments through the sub-window 2.

6. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES AND IN INVESTMENT ENTITIES

EIF has interest in entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Fund has interest in unconsolidated structured entities as described below.

Structured entities are used either to meet statutory obligations or to provide mandators with access to EIF expertise in relation to its primary activities. Structured entities or investment entities may be established as corporations, trusts or partnerships. Structured entities or investment entities generally:

- subscribe to equity issued by SMEs in the context of Private Equity transactions; or
- issue debt securities guaranteed either directly by the Fund or by a structured entity managed by EIF on behalf of a mandator.

The table below describes the types of structured entities in which EIF concluded that the Fund has an interest and no control:

TYPE OF STRUCTURED ENTITY	NATURE AND PURPOSE	INTEREST HELD BY THE FUND
Limited Partnership in relation to PE operations (see section 6.1)	Acquisition, holding, managing and disposal of participations in any enterprise subject to the conditions laid down in paragraph 2 (i) of Article 12 of EIF Statutes	■ Investments in shares issued by the Limited Partnership ■ Capital and revenues repayments
Special Purpose Vehicles ("SPV") in relation to financial guarantee operations (see section 6.2)	Provision of guarantees as well as of other comparable instruments for loans and other financial obligations in whatever form	■ Fees for financial guarantee servicing
Special Purpose Vehicles ("SPV") in relation to ABS investments (see section 6.3)	Acquisition of ABS investments	■ Interest income from ABS investments
Mandates in relation to management of facilities by the Fund on behalf of a mandator (see section 6.4 and section 6.5)	To deploy the resources allocated to the mandate by any Managing Authority and according to each individual agreement and to EIF expertise	■ Fees for mandates servicing

Below is a description of the Fund's involvement in unconsolidated structured entities by type. The Fund concluded that it does not control and therefore should not consolidate any entity described in sections 6.1, 6.2, 6.3, 6.4 and 6.5 as the Fund does not have power over the relevant activities of the entities.

6.1 Interest in structured entities in relation to Private Equity operations

Operations are typically structured as follows:

- An investment fund is setup with a General Partner (hereafter "GP") and with a number of Limited Partners (hereafter "LPs"), who form together the Limited Partnership. In addition, the Limited Partnership Agreement discloses the investment strategy foreseen within the entity and agreed between the GP and the LPs;
- When financing is brought by the LPs, full authority and power is given to the GP, which could delegate the investment part to an investment manager;
- The use of voting rights by the LPs is often foreseen to revocate the GP either with a cause or without cause. Even if an investment board within the entity is setup, it should be noted that such an investment board has a consultative role only and is not therefore one of the decision-making bodies of the Limited Partnership.

The Fund is an LP, it does not act as a GP and is from time to time a member of the consultative investment board. As at 31 December 2016, the Fund's interest ranged from 0.1% to 50%.

Maximum loss exposure from PE structured entities is limited to the amount of committed investment as disclosed in note 3.2.

For more quantitative details on PE operations, please refer to note 3.2.

6.2 Interest in structured entities in relation to financial guarantee operations

When the Fund enters into a securitisation transaction in the context of its activity of financial guarantee provided to the European financial institutions, the Fund could be exposed to a special purpose vehicle (hereafter "SPV") as follows:

- In the context of a bilateral guarantee

Under this type of financial guarantee, even if the Fund provides a bilateral guarantee for the benefit of the holder of the mezzanine/senior notes, the Fund is not a direct party to the securitisation transactions agreement to benefit from the operation. The Fund enters into a financial guarantee agreement directly with the beneficiary, which is typically the beneficiary of the securitisation transaction agreement. Through the financial guarantee agreement, the Fund has no negotiating power and no voting rights within the structure and the role of the Fund is to guarantee one of the tranches of a more global transaction.

In the context of such transactions, an SPV could be established to initially purchase a pool of receivables from the originator and to issue consequently several classes of notes, which will be guaranteed. On the other hand, if no SPV is established, the originator will issue the notes and will retain the pool of receivables.

- In the context of an embedded guarantee

Under this type of operation and contrary to a bilateral guarantee, an SPV shall be established to issue the notes and to be the owner of the pool of receivables. In such operations, the Fund, as guarantor, will be part of the structure of the transaction and will be part of the agreement without having any control over the SPV.

Maximum loss exposure from guarantee operations structured entities is limited to the total exposure at risk as disclosed in note 3.3.

As at 31 December 2016, the Fund is exposed to 63 bilateral guarantees (2015: 55 transactions) and to 6 embedded guarantees (2015: 9 transactions), which represent respectively EUR 5 861m and EUR 98m of EIF's guarantees in terms of exposure at risk (2015: respectively EUR 3 321m and EUR 189m).

In addition, 1 bilateral guarantee and 4 embedded guarantees were classified into the caption "Provisions for financial guarantee" (2015: respectively 9 and 4) and represent respectively EUR 1m and EUR 28m of the total amount of provisions for EIF's guarantees (2015: respectively EUR 41m and EUR 40m).

For more quantitative details on the guarantee portfolio, please refer to note 3.3.

6.3 Interest in structured entities in relation to ABS investments

When the Fund enters into a securitisation backed by SME financing, the Fund could be exposed to an SPV, which may be established to issue the ABS investment. In such operations, the Fund will make a direct investment in the ABS issued out by the SPV.

As at 31 December 2016, the Fund invested in 7 ABS investments issued by SPVs (2015: 2) for a total amount of EUR 178.7m, which are classified into the caption "Loans and receivables" (2015: 50.2m).

For more quantitative details on ABS investments, please refer to note 3.5.

6.4 Interest in structured entities in relation to management of facilities by the Fund on behalf of a mandator

The Fund acts as an integrated operational platform for SME finance, deploying resources mandated for management by its related parties (EIB and EC see note 8.1 and 8.2, respectively) and other third parties (public and private entities) depending on the nature of the investment but also in relation to the Fund's expertise and in compliance with its Statutes. When the Fund manages a facility on behalf of a mandator, the management will be performed by the Fund either through a trusteeship or partnership depending on the requirements of the mandatory, which have been classified as follows:

- The EIB, which means EIB resources is managed by the Fund according to a defined scope;
- The European Commission, which means European Commission contributions managed by the Fund according to the financial regulation and to dedicated agreements;
- Other third parties: the Fund has sought to further enhance its market impact by establishing joint investment facilities with public and private entities through trust accounts and country, multi-country or sector-specific funds-of-funds.

EIF is entrusted with the management of the funds, operating under clear rules defined in an agreement, investing in entities whose maximum risk is defined in the agreement and performing the treasury asset management under guidelines defined in the agreement. The Fund is remunerated for its services through management fees (or on a cost recovery basis for some mandates) which are defined upfront in the agreement. In that context, the Fund classifies the mandates as follows and according to the nature of financial instruments foreseen under each individual agreement:

MANDATOR	NATURE AND PURPOSE OF THE STRUCTURED ENTITY	INTEREST HELD BY THE FUND	RESOURCES [8]	COMMITTED TRANSACTIONS [9]
Services offered in the context of financial guarantee operations				
European Investment Bank	On behalf of the mandator and according to the Fund's expertise: - To originate financial guarantee transactions; - To monitor the financial guarantee transactions; - To report to the mandator accordingly.	Management fees for servicing	1 105 500 000	752 284 785
European Commission			2 344 665 325	2 725 403 705
Other third parties			1 374 500 000	901 125 931
Services offered in the context of private equity operations				
European Investment Bank	On behalf of the mandator and according to the Fund's expertise: - To originate private equity transactions; - To monitor the private equity transactions; - To report to the mandator accordingly.	Management fees for servicing	10 611 750 000	11 902 252 505
European Commission			2 459 585 617	1 003 288 049
Other third parties			2 730 417 639	1 168 370 492
Services offered in the context of microfinance operations				
European Investment Bank	On behalf of the mandator and according to the Fund's expertise: - To originate microfinance transactions; - To monitor the private equity transactions; - To report to the mandator accordingly.	Management fees for servicing	118 750 000	73 675 000
European Commission			4 000 000	2 749 887
Other third parties			61 407 895	53 999 283
Other third parties				
Other third party	On behalf of the mandator and according to the Fund's expertise: - To originate multi products transactions; - To monitor the multi products transactions; - To report to the mandator accordingly.	Management fees for servicing	1 285 367 565	1 077 295 623

8 "Resources" means the amount of the contribution already paid by the mandator to the Fund or the amount committed to be paid by the mandator.

9 "Committed transactions" corresponds to the transactions committed by the Fund for the purpose of managing the mandate on behalf of the mandator.

6.5 Interest in investment entities in relation to management of facilities by the Fund on behalf of a mandator

Under certain circumstances and depending on the requirements of a mandatory, EIF could establish a legal entity from which EIF will act as an integrated operational platform for SME finance, deploying resources mandated for management by its related parties and other third parties.

EIF is entrusted with the management of the funds, operating under clear rules defined in an agreement, investing in entities whose maximum risk is defined in the agreement and performing the treasury asset management under guidelines defined in the agreement. The Fund is remunerated for its services through management fees (or on a cost recovery basis for some mandates) which are defined upfront in the agreement. In that context, the Fund classifies the mandates as follows and according to the nature of financial instruments foreseen under each individual agreement:

MANDATOR	COUNTRY	NATURE AND PURPOSE OF THE STRUCTURED ENTITY	INTEREST HELD BY THE FUND	RESOURCES [10]	COMMITTED TRANSACTIONS [11]
European Investment Bank and European Commission	Multicountry with a focus on European Microfinance	On behalf of the mandator and according to the Fund's expertise: - To act as investment adviser and to propose private equity transaction for the approval of governing bodies of the fund of funds; - To originate private equity transactions; - To monitor the private equity transactions; - To report to the mandator accordingly.	Management fees for servicing	180 000 000	176 221 571
European Commission	Multicountry with a focus on Global Energy Efficiency and Renewable Energy Fund			222 024 863	164 245 602
Other third parties	Turkey			360 000 000	220 772 636
	Portugal			111 330 000	102 055 215
	Spain			183 000 000	174 288 389
	The United Kingdom			233 595 736	241 212 540
	The Netherlands			402 500 000	218 500 000
	Multi country with a focus on European Angels			304 401 970	73 773 531

10 Resources" means the amount of contribution already paid by the mandator to the Fund or the amount committed to be paid by the mandator.
11 "Committed transactions" corresponds to the transactions committed by the Fund for the purpose of managing the mandate on behalf of the mandator.

As at 31 December 2016, total assets under management defined as the initial resources and contributions allocated to each mandate amounts to EUR 22.09bn (2015: EUR 18.26bn).

7. DETAILED DISCLOSURES RELATED TO THE STATEMENT OF COMPREHENSIVE INCOME

7.1 Interest and similar income

Interest and similar income comprises:

EUR

	2016	2015
Interest income on debt securities and other fixed income securities	19 732 148	21 613 721
Interest income on loans and receivables	1 416 987	295 466
Interest income on money market instruments	(15 802)	(275 873)
Interest income on bank current accounts	545 487	547 471
Other interest income	3 933 786	3 467 984
	25 612 606	25 648 769

Interest income on debt securities include discounts of EUR 525 590 (2015: EUR 643 082) and premiums amount to EUR (11 135 301) (2015: EUR (11 414 019)).

7.2 Net result from guarantee operations

Net result from guarantee operations comprises:

EUR

	2016	2015
Net income from financial guarantees contracts	28 135 730	18 901 969
Provision for guarantees under IAS 37	0	(100 143)
Release of provision	16 771 995	28 867 077
Guarantee Call net of recoveries	1 786 897	1 891 847
	46 694 622	49 560 750

7.3 Commission income

Commission income is detailed as follows:

EUR

	2016	2015
Commissions on EIB mandates	40 394 171	27 810 619
Commissions on EC mandates	62 991 284	43 538 966
Commissions on Regional and Funds of Funds mandates	34 392 497	31 536 750
Other commissions	1 123 560	250 119
	138 901 512	103 136 454

Increase of commission income from the mandates managed by EIF on behalf of the European Commission is mainly due to the signature of new mandates generating a start-up fee and due to the deployment of the mandates, which were signed since 2014 in the context of the 2014-2020 programming period budgeted by the European Commission.

7.4 Net gain/(loss) on financial operations

Net gain/(loss) on financial operations includes unrealised results arising from transactions or cash positions denominated in currency.

For the year ended 31 December 2015, net gain/(loss) on financial operations also included EUR 9 388 799 of realised gains on the disposal of shares and other variable income securities, including the result of the secondary sale transactions. A Sale Purchase Agreement was signed in 2016. However due to the conditions precedents foreseen in the agreement, the sale had no financial impact as the financial assets were not derecognised.

7.5 Other operating income

Other operating income includes mainly rent from leased office space. Income relating to these operating leases amount to EUR 30 446 (2015: EUR 418 090).

In addition, on 27 January 2016, EIF sold a building which was held for sale at a carrying value of EUR 4.5m which was lower than the fair value less cost to sell. The building was sold for a sale price amounting to EUR 6.8m resulting in a net realised gain of EUR 2.4m.

7.6 General administrative expenses

Wages and salaries include expenses of EUR 571 009 (2015: EUR 612 119) incurred in relation to staff seconded from the EIB.

The number of persons, including 3 EIB secondees (2015: 3 EIB secondees), employed at the year-end is as follows:

		EUR
	2016	2015
Chief Executive/Deputy Chief Executive	2	2
Employees	419	370
	421	372

The Fund has identified members of the Board of Directors, members of the Audit Board and members of EIF Management as key management personnel.

Key management compensation for the period is disclosed as follows:

		EUR
	2016	2015
Short-term benefits[12]	2 936 061	2 922 978
Post employment benefits[13]	451 280	438 942
	3 387 341	3 361 920

[12] Short-term employee benefits comprise salaries and allowances, bonuses and social security contributions of key management personnel
[13] Post employment benefits comprise pensions and expenses for post employment health insurance paid to key management personnel

Other administrative expenses include rents for office space amounting to EUR 9 031 664 (2015: EUR 7 599 713).

8. RELATED PARTY TRANSACTIONS

EIB is the majority owner of the Fund with 59.9% (2015: 61.4%) of the shares. The remaining percentage is held by the European Commission 28.1% (2015: 26.5%) and the financial institutions 12.0% (2015: 12.1%). Information relating to general administrative expenses and key management is disclosed in the note 7.6.

8.1 European Investment Bank

Related party transactions with the EIB concern mainly the management by the Fund of the PE activity as described in note 6. In addition and according to the service level agreement between EIF and the EIB, the EIB manages EIF's treasury, IT, pension fund and other services on behalf of EIF. Relating expenses are taken into account in the general administrative expenses.

The amounts included in the financial statements and relating to the EIB are disclosed as follows:

		EUR
	31.12.2016	31.12.2015
ASSETS		
Other assets	145 693 020	110 750 394
LIABILITIES AND EQUITY		
Other liabilities and provisions	6 498 177	27 205 943
Share capital	524 800 000	526 400 000
INCOME		
Commission income	40 394 171	27 810 619
Interest income	3 933 786	3 467 985
EXPENSES		
General administrative expenses	19 914 471	12 326 203

8.2 European Union

Related party transactions with the European Union represented by the European Commission concern mainly the management by the Fund of private equity and guarantee activities as described in the note 6. The amounts included in the financial statements and relating to the European Union represented by the European Commission are disclosed as follows:

EUR

	31.12.2016	31.12.2015
ASSETS		
Other assets	62 900 011	26 290 148
LIABILITIES AND EQUITY		
Other liabilities and provisions	31 889 332	6 810 773
Share capital	246 400 000	227 200 000
INCOME		
Commission income	62 991 284	43 538 966
Other income	0	5 331

9. TAXATION

The Protocol on the Privileges and Immunities of the European Union, appended to the Treaty on the Functioning of the European Union, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct and indirect taxes.

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EIF's 2016 figures related to SME outreach and employment including the estimated numbers on sustained jobs and employment are indicative only and are based on reports received from financial intermediaries between 30 September 2015 and 30 September 2016. EIF assumes no liability for the accuracy thereof.

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